NO MAPS

ANNUAL REPORT 199

big plans

SUNCOR
ENERGY

CONTENTS

In 1997, Suncor experienced its fifth consecutive year of profitable growth.

proven record

Nineteen ninety seven was a year of big plans for Suncor. As work continued on the Steepbank Mine and fixed plant expansion, the company announced the most ambitious oil sands expansion in its history — the $2.2 billion Project Millennium.

Suncor's big plans are backed by a five-year record of proven financial and operating performance. The company has a firm foundation in its base businesses, a commitment to safe and environmentally responsible action and a clear vision of future growth.

With over $4 billion in capital investment planned over the next four years, Suncor is growing all its businesses and actively seeking new opportunities in Canada and abroad.

Financial Highlights

Year ended December 31 ($ millions)	1997	1996	1995
Financial			
Revenues	**2 154**	2 100	1 901
Net earnings	**223**	187	151
Cash flow from operations	**575**	491	395
Capital and exploration expenditures	**847**	563	436
Long-term debt	**767**	395	253
Dollars per Common Share			
Net earnings	**2.04**	1.71	1.38
Cash flow from operations	**5.24**	4.49	3.62
Cash dividends	**0.68**	0.64	0.57
Key Ratios – %			
Return on capital employed	**11.9**	12.3	11.8
Return on shareholders' equity	**16.9**	15.8	13.9
Long-term borrowings to capital employed	**34.7**	23.6	17.8
Net debt/cash flow from operations	**138**	86	74

We Care

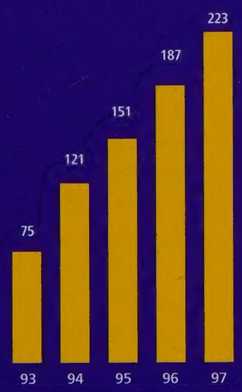
Suncor is committed to achieving leading performance in health, safety and the environment within our businesses, our communities and the eco-systems in which we operate.

Share Price*
($ per share)

Suncor's share price continues to demonstrate consistent appreciation every year, including 73% growth in 1997.

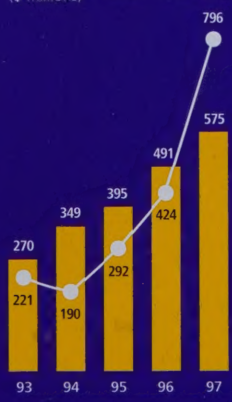
*Share prices for 1993 to 1996 have been restated to reflect the impact of the 2 for 1 stock split that occurred in 1997.

Earnings
($ millions)



Earnings increase for a fifth consecutive year.

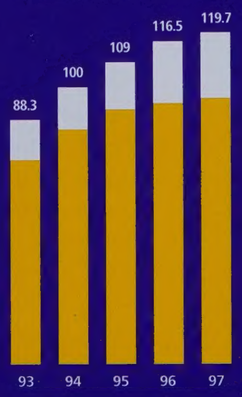
Cash Flow from Operations/Net Debt Levels
($ millions)



■ Cash Flow from Operations
● Net Debt

Cash flow from operations increased for a fifth consecutive year. Higher net debt level reflects increased capital spending on growth projects.

Production
(thousands of barrels of oil equivalent per day)



■ Natural Gas
■ Crude Oil and Natural Gas Liquids

Production continues upward trend for sixth year in a row, with a 3% growth in 1997.

Richard L. George
President and
Chief Executive Officer

"Thanks to the hard work of everyone at Suncor during 1997, we continue to build on our proven record, and we are ready to deliver on our big plans for the future."

Message to Shareholders

Big Plans, Proven Record

It's a pleasure to report that Suncor Energy has achieved its fifth consecutive year of growth in production, earnings and cash flow.

We set a new company record for total oil and natural gas production of 119,700 barrels of oil equivalent (BOE) per day, up from last year's 116,500 BOE per day. Consolidated earnings rose to $223 million, up 19% from $187 million in 1996. Cash flow from operations increased to $575 million from $491 million in 1996.

Despite volatile financial markets, investors continued to recognize Suncor's value and future potential. Suncor common shares closed on December 31, 1997 at $49 per share, up 73% from $28.40 per share (adjusted for a 2:1 split) at the beginning of the year.

We knew it would be a difficult challenge to surpass the excellent results of 1996. A planned maintenance shutdown of our Oil Sands operations halted production for one month. However, production levels in the second half of the year quickly recovered, our conventional oil and gas business continued to perform well, and margins and volumes improved in our downstream refining and retail operations. In the end, we achieved another record year. And we accomplished this at the same time as we continued to improve our health, safety and environmental performance. Thanks to the hard work of everyone at Suncor during 1997, we continue to build on our proven record, and we are ready to deliver on our big plans for the future.

Business Operations

Phased Growth Continues at Oil Sands

Construction of the Steepbank Mine and fixed plant expansion is progressing on schedule. The new Suncor Bridge across the Athabasca River, which joins Steepbank to our processing facilities, was completed during 1997. Following completion of the Steepbank Mine and fixed plant expansion by the end of 1998, crude oil production is expected to rise to 105,000 barrels per day.

During the year we also announced the next era of oil sands growth — the $2.2 billion Project Millennium, a further expansion that will come in two phases. The first is a $190 million production enhancement phase to increase production from our existing facilities to an estimated 130,000 barrels per day in the year 2001. The second phase is a proposed $2 billion plant and mine expansion that is designed to take Oil Sands' average production to a target of 210,000 barrels per day in 2002. With estimated reserves in place to maintain that production level for up to 35 years, our large capital investment should generate long-term returns for Suncor.

There are still a number of steps that must be taken before final approval for Project Millennium. A $90 million technical, environmental and socio-economic study is underway to determine efficient and responsible ways for Suncor to meet project goals and stakeholder expectations. This phase of the project will result in a definitive plan that must be approved by Suncor's Board of Directors and by government regulators before construction can begin. Suncor expects to make a joint application to regulatory agencies in April, 1998, with decisions expected in early 1999. While there is always the possibility of a regulatory delay, I believe Suncor's strong record of cooperative public consultation and delivering on our past commitments positions us well for this next stage of our growth plans.

Project Millennium is a big job, and making it a reality will require the skills of many people. Suncor will be working closely with provincial and regional government agencies to help devise trades and industry skills training programs that will

maximize the employment and social benefits this economic expansion is expected to create.

Exploration & Production Maintains Strong Performance

In 1997 Exploration and Production entered its fourth year of production growth despite a late spring break-up and a tight supply of available drill rigs.

For the past three years, Exploration and Production has maintained an average reserve replacement ratio of 220 per cent, with an average finding and development cost of $6.25 per BOE of proven reserves. Our excellent performance should once again position us in the top quartile of the Canadian oil and gas industry on these measures.

By remaining focused on western Canadian exploration we expect to continue building value in Suncor's conventional oil and gas business. Our objectives are to continue expanding our natural gas reserves and concentrate our exploration efforts in geographic areas we have identified with potential.

Suncor's Burnt Lake heavy oil pilot project is in its first phase of operations, with three test well pairs now producing oil using the steam-assisted gravity drainage (SAGD) process. Based on early results of our Burnt Lake pilot, we're optimistic that SAGD technology has commercial potential, particularly if we integrate our approach to heavy oil development with Suncor's other businesses. Suncor's Firebag property, with its proximity to the oil sands operation, holds the most promise in the long term. In 1997 we invested $16 million in additional leases in the Firebag area as part of our long-term strategy to leverage Suncor's oil sands assets to profitably develop the company's heavy oil properties.

E&P is also making progress on its initiative to pursue exploration and development opportunities in South America. Currently, Brazil is the main focus. Brazil's petroleum reserves are relatively underexplored and the country is moving forward on its plans to open up its oil and gas industry to the private sector. Suncor's skills and expertise, combined with its track record in the competitive Canadian environment, have positioned the company to take advantage of this international opportunity.

Sunoco Broadens its Offering to Customers

The Ontario refining and marketing industry is now stabilizing after a five-year period of restructuring and consolidation. We anticipate a period in which Sunoco can generate a higher return on capital and begin to broaden its energy business with an expanding portfolio of new energy and convenience products and services.

"During the year we also announced the next era of oil sands growth — the $2.2 billion Project Millennium…Our large capital investment should generate long-term returns for Suncor."

The downstream business will continue to require a high level of efficiency and global competitiveness. To address this, Sunoco is investing to upgrade existing assets and expand its market share into new related business areas. As part of this effort, Sunoco has made a successful entry into the residential and commercial natural gas business in Ontario, and plans to have a significant share of this market by the year 2000.

Sunoco continues to position its Sarnia operations to be in the top quartile of North American refineries in its class in terms of profitability and efficiency by the year 2000. New technology is increasing the level of efficiency of the operation and, with further investments, will give us the ability to restructure the operations of the refinery. This will allow for a more effective deployment of our skilled workforce, and over the next four years the number of positions will be reduced by up to 80 in Sarnia. Our goal is to find opportunities for employees to relocate to other Suncor operations such as our Oil Sands business.

Stuart Project Proceeds

During the year, Suncor and its two Australian joint venture participants, Southern Pacific Petroleum NL and Central Pacific Minerals NL announced the go-ahead of a $225 million, 4,500 barrel per day demonstration oil shale recovery plant near Gladstone on the Northeast coast of Australia. Detailed engineering and initial construction work began in 1997.

"During the year, Suncor developed a framework for action to address the risk of global climate change."

All levels of government and the local community have been highly supportive of this project, and preliminary results are expected by the end of 1999. At that time we will be able to assess whether the process we are using to extract oil from the shale is technically and economically viable. Success for this venture depends on our ability to scale up the production process to accommodate large production volumes. If the demonstration project proves successful, within ten years the Stuart development could become as large as our current operation in Fort McMurray, with production of up to 85,000 barrels per day.

Environment, Health and Safety

I am pleased to report that the company continues to make good progress in improving its environment, health and safety performance. We published a detailed report on our actions to date and our future plans in September of 1997. The report, and other current information on Suncor's approach to environment, health and safety, are available from our corporate office (tel. 1-800-558-9071) or through our website at www.suncor.com.

During the year, Suncor developed a framework for action to address the risk of global climate change. This involves the company taking a leadership position in seven areas: managing our own greenhouse emissions, developing renewable sources of energy, supporting environmental and economic research, promoting the use of domestic and international greenhouse gas offsets, taking an active role in public policy to encourage sustainable environmental solutions, promoting educational programs for our stakeholders, and public reporting on Suncor's progress towards achieving its greenhouse gas emission reduction targets.

We believe that Suncor can achieve a reduction to its 1990 levels of greenhouse gas emissions by 2000 despite our projected 65 per cent increase in production over that period. However, we face a real challenge after the turn of the century when Project Millennium comes on stream and our production is expected to more than double. We will continue to look at ways to further reduce emissions, and we are designing the new oil sands facilities to minimize environmental impacts.

The new targets that came out of the recent Kyoto Climate Change conference will prove difficult to meet unless we can use a variety of ways to address the issue. One energy company cannot single-handedly solve a complex global problem. But we can lead in our own small way, showing that positive action can take place and setting an example for others to follow. And we can apply our best creative abilities only if we have the flexibility to pursue innovative solutions.

Some other aspects of our environmental work have also been gaining us national and international attention. For example, in 1997 Suncor's $190 million sulphur dioxide emission reduction plant was named Environmental Project of the Year by the International Association of Environmental Engineers. This same project also earned Suncor an Emerald Award from the Alberta Foundation for Environmental Excellence.

Investing in the Future

In 1998, the company plans to invest a record $1 billion in a capital program that will touch all of the company's core businesses. About half of that spending commitment will go to oil sands expansion — an investment that gives us considerable long-term growth potential with a relatively low risk. We are spending on known technology and proven reserves and, based on current assumptions, we expect our investment in oil sands expansion will generate a solid return for several decades.

The rest of our 1998 capital spending will be divided between our exploration and production business, our downstream business, Sunoco, and our Stuart Oil Shale Project in Australia. Our exploration and production business will continue to target top quartile reserve replacement and finding and development cost performance while pursuing growth initiatives in heavy oil and South America and working to improve its net cash flow performance. In the downstream, Sunoco has emerged from its strategic repositioning and is now focused on broadening its offering to the consumer. And construction of the Stuart demonstration plant in Australia will be in full swing in 1998.

Preparing for the Next Century of Growth

We expect a high level of investment activity to continue for the next several years. By the turn of the century Suncor aspires to be a vastly expanded

and, in some respects, a different company. The biggest part of our business will still be the Alberta oil sands, but we also plan to have a broader portfolio, with more interests outside of Canada.

I strongly believe that Suncor's future success depends on its ability to become what we call a "sustainable energy company." This means that we care about maintaining a healthy environment, economy, and society. By demonstrating responsible action and leadership in these areas, we will continue to earn our license to operate and grow.

For the long term, Suncor remains committed to five growth priorities.

Our first priority is to continue to expand our oil sands business in Fort McMurray. Project Millennium is direct evidence of our commitment to growth in this area.

Our second priority is to transfer Suncor's proven oil sands technology and expertise to new business opportunities outside of Canada. Our Stuart Oil Shale project is the first of what could become many examples of this strategy as we begin to identify other mineable oil opportunities world wide.

Our third priority is to seek opportunities to further integrate Suncor's upstream and downstream businesses and potentially expand the company's refining and marketing activities. We signed a long-term supply agreement with U.S.-based Koch Oil Co. Ltd. in 1997, and IPL Energy Inc. agreed to build the Wild Rose Pipeline, which will ship Suncor's oil sands production from Fort McMurray to Hardisty, Alberta. Both are key achievements in securing transportation and markets for our increasing oil sands production. To that end, we continue to evaluate downstream opportunities in the U.S. as we look for potential markets for our oil sands crude. We are also looking for further opportunities to increase shareholder value by building mutually beneficial relationships with other businesses.

Our fourth priority is to pursue opportunities in heavy oil, and we are moving forward with an integrated heavy oil development strategy. In 1997 we acquired an additional 27,500 hectares of heavy oil properties in the Firebag area of the Athabasca oil sands and made good progress with our Burnt Lake pilot project. Currently, we are working to evaluate the size and quality of Suncor's oil sands reservoirs and consolidate our heavy oil assets.

Our fifth priority is to seek out international exploration and production opportunities. To date, we have focused our efforts in Brazil, but we will continue to study possible strategies for entering additional markets in South America.

> **"I am more optimistic than ever that we will enter the 21st century as one of the most dynamic and successful energy companies in North America."**

In 1997, as part of our commitment to building Suncor as a sustainable energy company, we also began exploring alternative and renewable energy sources as another area for potential investment.

Over the next five years, these integrated actions have the potential to bear considerable fruit. I am optimistic that we will enter the 21st century as one of the most dynamic and successful energy companies in North America.

The people behind Suncor's success

Suncor Energy has benefited immeasurably by the business acumen, skills and guidance of our board of directors led by Robert Wyman, Suncor's chairman. Our board has provided valuable advice and support that have enabled the company to achieve such great success over the past five years.

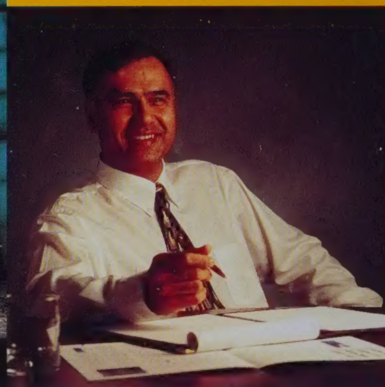
A company growing as fast as Suncor asks a great deal of its employees and their families, and we do not take their dedication and commitment for granted. My colleagues have worked extremely hard during the year to meet deadlines and make sure we hit the performance targets we set for ourselves in 1997. For their efforts, I am extremely grateful.

And, finally, I want to thank all of Suncor's shareholders for showing such a high degree of confidence in our company. Your support — and your high expectations — are important to our long-term success.

Richard L. George
President and Chief Executive Officer

"There are two critical elements to achieving serious growth at Oil Sands: working every single day to make this business safer and more productive, and moving Project Millennium forward."

Mike Ashar
Executive Vice President
Oil Sands



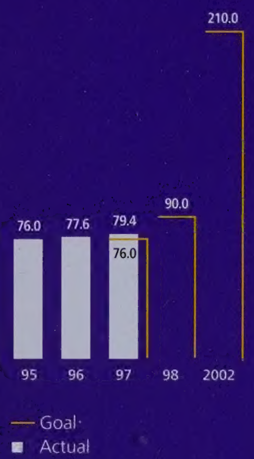
Oil Sands

Oil Sands produces and markets custom-blended refinery feedstocks and transportation fuel from its oil sands mine and upgrading facility in Fort McMurray, Alberta, Canada.

MILESTONES FOR GROWTH 1997

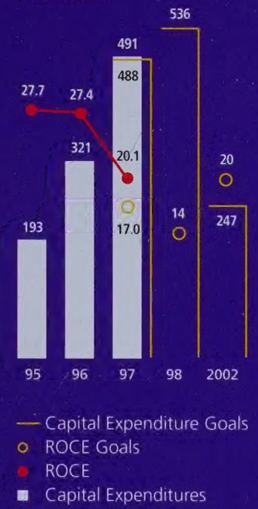
- Increased earnings to $179 million, up from $164 million in 1996.
- Achieved record average production of 79,400 barrels/day. Exceeded production target of 85,000 barrels/day in the second half of 1997, following a planned maintenance shutdown.
- Announced Project Millennium, a planned $2.2 billion expansion of Suncor's oil sands business. Launched a $90 million technical, environmental and socio-economic assessment to determine an efficient and responsible approach to expansion.
- Continued work on Steepbank Mine and fixed plant expansion. Opened the $28 million Suncor Bridge across the Athabasca River, a crucial link between the existing oil sands plant and the Steepbank leases.
- Achieved a major reduction in the frequency and severity of workplace injuries.
- Received international and provincial awards for acting to preserve and protect the environment. The sulphur dioxide emission reduction plant became fully operational and achieved plant wide reductions of 75% below 1990 levels by year-end.
- Celebrated Suncor's 30th year in the oil sands business.

Production
(thousands of barrels per day)



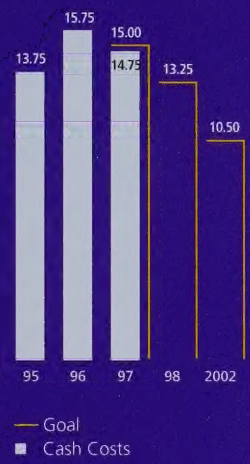
1998 production expected to be in 90,000 to 95,000 barrels per day range. Project Millennium announcement targets production of 130,000 barrels per day in 2001 and 210,000 barrels per day in 2002.

Capital Spending Program and Return on Capital Employed



Announced spending of $2.2 billion on Project Millennium is anticipated to generate a ROCE of 20% in 2002. In the short term, ROCE will decline primarily because of increased spending.

Cash Costs
($ per barrel)



Cash cost goals are being realized. As targeted production increases, unit cash costs are expected to decline.

serious growth

GOALS:

- 1998: Commission the Steepbank Mine and fixed plant expansion.
- 1999: Increase production to 105,000 barrels per day.
- 2000: Achieve 1990 levels of greenhouse gases despite a projected 131% increase in production. Work towards Kyoto target of reducing greenhouse gas emissions to 6 per cent below 1990 levels by the 2008 to 2012 timeframe.
- 2001: Increase production to 130,000 barrels per day from the existing oil sands plant facilities ($190 million investment in Phase One of Project Millennium).
- 2002: Increase production to 210,000 barrels per day ($2 billion investment in Phase Two of Project Millennium).
- 2002: Reduce cash costs to between $10 and $11 per barrel.
- Continue to seek profitable growth and market opportunities while maintaining a healthy, safe and environmentally responsible business.

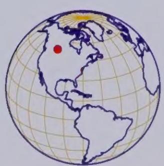
Upper left: A heavy hauler gets a checkup at Suncor's maintenance shop.
Above: Construction is in full swing on the fixed plant expansion.

"We will continue to build on our strengths by targeting a high reserve replacement rate and low finding and development costs while applying our expertise to exploring and developing opportunities in heavy oil and in South America."

Barry Stewart
Group Executive Vice President
Exploration and Production

Exploration and Production

Exploration and Production explores for, acquires, develops and produces oil and natural gas in Western Canada and markets its production throughout North America.



MILESTONES FOR GROWTH 1997

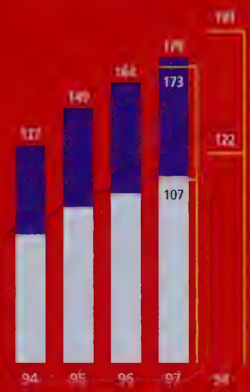
- Increased earnings to $24 million, up 9% from $22 million in 1996.
- Raised production to a record 40,300 BOE per day, up from 38,900 BOE per day in 1996.
- Added 28.7 million BOE of proved new reserves during the year, resulting in a three-year average reserve replacement ratio of 220%.
- Continued top quartile finding and development performance, with average finding and development costs of $6.25 per BOE over the past three years.
- Reached an agreement with Enron Capital and Trade Resources Canada Corp. to diversify and enhance the value of Suncor's natural gas portfolio.
- Started production of heavy oil at Burnt Lake pilot plant and invested $16 million in additional heavy oil properties in the Firebag area of the Athabasca oil sands.
- Increased knowledge of and exposure to potential exploration and production opportunities in South America.
- Completed 1997 without a single Suncor employee suffering a lost time injury.

Finding and Development Costs/Proved F&D Additions
(millions of barrels of oil equivalent)

— Proved reserve additions goal
- $/BOE F & D Costs goal
- $/BOE F&D Costs (three-year rolling average proved reserve additions)
- Proved reserve additions

Proved reserve additions at F&D cost of $6.25/bbl. is anticipated to be among the best in industry. 1998 reserve additions targeted at 30 to 33 million BOE.

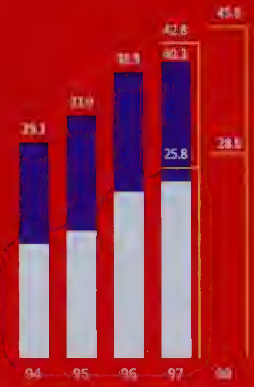
Total Proved Reserves
(millions of BOE)



— Goal
- Liquids
- Natural Gas

Total proved reserves increase for fifth consecutive year, positioning E&P for further production growth.

Production



— Goal
- Liquids (thousands of barrels per day)
- Natural Gas (thousands of barrels of oil equivalent per day)

E&P increased total production volumes for the fourth consecutive year, despite reduced availability of drilling rigs and poor weather conditions. Production for 1998 is targeted at 45,000 to 47,000 BOE/day.

building on strengths

GOALS:

- Focus capital investment of $228 million on further growth in Western Canada, with a continued emphasis on natural gas exploration.
- Continue to target 200% reserve replacement ratio.
- Maintain top quartile finding and development cost.
- Advance heavy oil strategy by continuing with Phase 1 of Burnt Lake pilot project and evaluating Suncor's heavy oil properties.
- Continue to evaluate growth opportunities in South America.
- Increase production to 45 – 47,000 BOE per day.
- Achieve these goals while continuing to improve environmental, health and safety performance.

Upper left: Natural gas feeder lines at Suncor's Rosevear gas processing facility in Northwestern Alberta.

Above: A steam injection unit at the company's Burnt Lake heavy oil pilot plant.

"We have restructured our business and Sunoco is stronger than ever. Now we are broadening our product and service offering to achieve profitable growth."

Mike O'Brien
Executive Vice President
Sunoco

Sunoco

Sunoco refines and markets petroleum products and chemicals with a major refinery in Sarnia, Ontario, a network of more than 500 retail gasoline outlets throughout the province and a new natural gas marketing business.

MILESTONES FOR GROWTH 1997

- Posted $39 million net earnings ($48 million in operating earnings, a 50% increase over 1996).
- Launched a new energy services business, with a first step into natural gas marketing in Ontario, and achieved substantial growth in market share by year end.
- Expanded the marketing of environmentally friendlier ethanol-enhanced gasolines to all of Sunoco's branded retail network.
- Began piloting a strategy designed to broaden Sunoco's retail offering to consumers and increase sales of convenience products.
- Introduced a province-wide loyalty program with the Canadian Automobile Association designed to increase Sunoco's market share in the retail and energy businesses.
- Entered the diesel truck-stop business and introduced a new high-performance premium Gold Diesel Fuel to industrial/commercial customers to increase our penetration in the diesel business.
- Continued a strategy at the Sarnia refinery to increase North American competitiveness.
- Received a Pollution Prevention Award from the Ontario Ministry of the Environment for eliminating leaks from underground storage tanks.

Crude Utilization/ High Value Components
(percentage)

— Crude Utilization Goal
○ Percentage of High Value Components Goal
■ Crude Utilization
Percentage of High Value Components

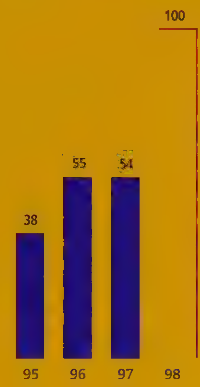
Crude utilization reached 97% in 1997, 2% better than our targeted 95% for the year.

Sunoco Ontario Branded Retail Network Efficiency
(millions of litres per site)

— Throughput Goal
○ Sites Goal
■ Throughput
Sites (number at year end)

Site throughput increased in 1997 and is anticipated to improve as a result of continuing efforts to increase the productivity of existing sites.

Capital Spending
($ millions)



— Goal
■ Actual

1998 capital spending earmarked for technological improvements at Sarnia refinery and redevelopment and broadening of retail network products and services.

new markets

GOALS:

- Achieve and sustain a double digit return on capital employed by the year 2000.
- Position Sarnia refinery in the top quartile of North American refiners in its class by the year 2000.
- Increase refinery production and further penetration of the distillate and gasoline markets.
- Broaden Sunoco's customer service and energy offering and increase sales of convenience products and services.
- Capture significant share of the Ontario residential and commercial natural gas market by the year 2000.
- Be positioned to potentially market and generate electricity after deregulation in Ontario.
- Continue to strengthen stakeholder relationships and environment, health and safety performance.

Upper left: Sunoco has an 18% share of Ontario's retail gasoline market. *Above:* The Sarnia refinery operated at 97% utilization of crude refining capacity in 1997.

"The Stuart oil shale deposits have an estimated 3 billion barrels of oil. We know we can extract oil from the shale, but first we'll ensure that it's commercially viable. With 30 years of expertise in the oil sands, this is a perfect fit for Suncor."

Peter Hopkins
Managing Director, Suncor Energy (Management) Pty. Ltd.

Australia

pioneering spirit

The Stuart oil shale deposits are located near Gladstone, in Queensland, Australia. The deposit is in close proximity to a highly developed infrastructure, including roads, power, natural gas and a deep-water port.

SUNCOR'S FIRST INTERNATIONAL VENTURE

The Stuart Oil Shale Project in Australia represents Suncor's first venture in the international energy arena. Suncor Energy and its Australian joint venture participants — Southern Pacific Petroleum NL and Central Pacific Minerals NL — have begun construction of a $225 million demonstration plant that is designed to achieve a targeted 4,500 barrels per day production in 1999. The demonstration plant is designed to model all the major processes of what could ultimately become a full-scale commercial operation. If stage one proves successful, the next stages could grow the Australian oil shale business to 85,000 barrels per day within 10 years, approximately the same size as Suncor's Oil Sands operations are today.

Above left: Construction continues on phase one of the Stuart Oil Shale Project.

"Suncor Energy has announced a multi-billion-dollar growth program. We have a financial plan that we expect will provide the flexibility and capacity to achieve our growth targets while maintaining the financial integrity of the company."

Dave Byler
Chief Financial Officer

Management's Discussion and Analysis

Overview

Suncor Energy Inc.'s corporate centre is located in Calgary, Alberta. The company is currently comprised of three operating businesses: an oil sands operation, a conventional oil and gas business, and a refining and marketing operation. Suncor's participation in the Stuart Oil Shale Project in Australia marks the company's first international venture.

1997 — Fifth Consecutive Year of Profitable Growth

Earnings in 1997 increased 19%, to $223 million ($2.04 per share) from $187 million ($1.71 per share) in 1996. Cash flow from operations also increased, to $575 million ($5.24 per share), up 17% from $491 million ($4.49 per share) in 1996. Revenue in 1997 was $2.2 billion compared with $2.1 billion in 1996.

The $36 million increase in Suncor's consolidated earnings was primarily due to lower royalties resulting from strategic capital investment and environmental spending on the oil sands operation, higher margins in the downstream business and higher natural gas prices and volumes. In addition there was an $11 million improvement in 1997 due to an **income tax refund**. These favourable factors were partially offset by higher expenditures associated with increased volumes, higher borrowing costs, growth initiatives and increased exploration expenses.

Income tax refund
See note 6 to the financial statements.

Consolidated Financial Results

($ millions)	**1997**	1996	1995
Earnings	**223**	187	151
Cash flow provided from operations	**575**	491	395
Investing activities	**884**	564	444
Dividends	**74**	70	62
Long-term borrowings	**767**	395	253

Throughout this document, the reporting of cash flow provided from operations and investing activities have been re-stated due to a change in accounting presentation. See note 1 to the financial statements for a further explanation of this change.

Relative Segment Contribution

(before the impact of corporate and elimination adjustments, expressed as %)	**1997**	1996	1995
Earnings			
Oil Sands	**74**	75	74
Exploration & Production	**10**	10	6
Sunoco	**16**	15	20
Cash flow Provided from Operations			
Oil Sands	**54**	58	57
Exploration and Production	**26**	26	21
Sunoco	**20**	16	22
Capital Employed			
Oil Sands	**48**	40	34
Exploration and Production	**29**	33	36
Sunoco	**23**	27	30

Industry Indicators

(average for the year unless otherwise noted)	**1997**	1996	1995
West Texas Intermediate (WTI) Crude oil U.S. $/barrel @ Cushing	**20.60**	22.00	18.40
Canadian 0.3% par crude Cdn $/barrel @ Edmonton	**27.80**	29.35	24.25
Light/sour crude oil price differential Cdn $/barrel @ Edmonton	**3.45**	2.65	2.65
Natural gas U.S. $/thousand cubic feet @ Henry Hub	**2.55**	2.75	1.70
Natural gas (Alberta spot) Cdn $/thousand cubic feet @ Empress	**1.95**	1.50	1.20
Natural gas exports to the U.S. trillions of cubic feet	**2.9***	2.9	2.8
Refined product demand (Ontario/Quebec) % change over prior year	**2.1***	3.7	1.0
Exchange rate: Cdn $: U.S. $	**0.72**	0.73	0.73
Exchange rate: Cdn $: Australian $	**0.97**	0.94	0.90

* Estimate

** The tables and charts in this document form an integral part of Management's Discussion and Analysis and should be referred to when reading the narrative. References to Suncor or the Company include Suncor Energy Inc. and its subsidiaries and investment in joint ventures, unless otherwise stated. A blue bar/arrow in the chart reflects a positive variance, while a red bar/arrow reflects a negative variance. This Management's Discussion and Analysis contains forward looking statements that involve risks and uncertainties. These statements are based on current expectations. Actual results may differ materially. Factors that might cause results to differ include, but are not limited to: supply and demand for the Company's products; commodity prices; exchange rates; the maintenance of satisfactory relationships with unions, employee associations and joint venture partners; the Company's ability to respond to changing markets, and regulatory environments; the cumulative impact of other resource development projects; the ability of the Company to receive timely regulatory approvals; integrity and reliability of the Company's capital assets; and the occurrence of unexpected events such as fires, blowouts, and other similar events. Many of these risk factors are discussed in further detail throughout this Management's Discussion and Analysis. Readers are also referred to the risk factors described in other documents Suncor files from time to time with securities regulatory authorities. Copies of these documents are available without charge from the Company.

Oil Sands

Bitumen/Heavy Oil
Tar-like form of oil that cannot be produced by conventional means. When extracted from oil sands, it can be upgraded into light sweet crude and other oil products.

Overview

In 1967 Suncor arrived on the world's stage as Great Canadian Oil Sands Limited, the first company to mine and upgrade oil sands on a commercial basis. Today, Suncor's Oil Sands business uses proven technology and processes to produce crude oil from the Athabasca oil sands, near Fort McMurray, Alberta. In 1997 production averaged a record 79,400 barrels per day.

Suncor's mine ranks as one of the five largest in Canada. The first stage of the operation involves mining the oil sand using giant trucks and shovels. The **bitumen** is then separated from the sand in the extraction process, after which it is upgraded to produce light sweet and light sour crude oil products and diesel fuel. These crude oil products are blended to meet customer specifications before being sent by pipeline to markets across Canada and the U.S. An on-site energy services plant uses petroleum coke, a by-product of the upgrading process, to generate steam and electricity needed to run the operations.

Expanding its oil sands business is a critical part of Suncor's growth agenda. In 1997 the company announced Project Millennium — a $2.2 billion plan to increase production, in stages, to 210,000 barrels per day in 2002.

Results of Operations and Investing Activities 1997 vs. 1996

Oil Sands – Summary of Results

($ millions unless otherwise noted)	1997	1996	1995
Revenue	**751**	766	676
Production (thousands of barrels per day)	**79.4**	77.6	76.0
Average sales price ($ per barrel)	**26.36**	26.84	24.46
Earnings	**179**	164	130
Cash flow provided from operations	**331**	318	278
Total assets	**1 689**	1 246	959
Investing activities	**531**	310	192

Earnings Analysis

Earnings Increase by 9% With Production at Record Levels

Oil Sands increased earnings to $179 million in 1997, up 9% over 1996. The primary factor contributing to the increase was reduced royalties, which were partially offset by lower crude prices, increased depreciation related to recent capital additions and increased volume-related expenditures.

For the fourth consecutive year, Oil Sands achieved record production of light sweet and other crude oil products. During the year work continued to expand production capabilities while maintaining the reliability and integrity of the operation. A 30-day planned maintenance shutdown in May was completed on schedule and on budget. During the shutdown, tie-in work for expansion projects was completed. Production averaged 88,100 barrels per day following the shutdown, with production projected to increase to 105,000 barrels per day by the end of 1998.

As part of the current Steepbank Mine and fixed plant expansion, mining equipment was added during the year to increase the amount of bitumen available to the upgrading operation and to increase throughput capacity in upgrading and energy services.

Despite the shutdown, record annual production of 29 million barrels surpassed Oil Sands' previous record of 28.4 million barrels achieved in 1996. Average production in 1997 was 79,400 barrels per day compared with 77,600 barrels per day in 1996. Sales volumes increased to 78,100 barrels per day, up from 78,000 barrels per day in 1996. The record production contributed to increased inventory levels at year end. It is expected that inventory levels will be reduced in 1998 when increased pipeline capacity becomes available.

Crude Oil Prices Down 6% From 1996

Lower average crude oil prices reduced earnings year-over-year by $26 million as the benchmark WTI crude oil price decreased by 6%. This reduction was partially offset by a year-over-year improvement of $16 million due to lower crude oil hedging losses. The combined impact of the above pricing factors and hedging was a net reduction in earnings of $10 million.

Lower Royalties Improve Earnings

Royalties for the year were reduced from $77 million to $31 million in 1997, increasing earnings by $42 million. This was due to reduced production from Suncor's Norcen lease and realization of an environmental royalty credit from the Government of Alberta. This royalty credit reduced Suncor's Crown royalty payment for the six-year period ending December 31, 1997 in conjunction with approved environmental spending. The adjustment earned in 1997 was $31 million. There was no adjustment in 1996.

The Crown royalty regime in effect for Suncor's existing operations requires payments to the Government of Alberta of 30% of revenues less allowable costs (including capital expenditures), subject to a minimum payment of 5% of gross revenues. In 1997 Suncor made the 5% minimum payment as a result of its investment in growth-related projects. This rate was effectively reduced in 1997 to 1% due to the environmental credit earned, as noted above. Suncor expects to continue at the minimum 5% rate until the year 2001, subject to future oil prices, production levels, operating costs, capital expenditures and the timing of production from the Steepbank Mine.

In 1997 Suncor and the Alberta Government finalized an agreement governing the transition of the company's oil sands operations to the new, generic oil sands royalty terms announced by the provincial government in November 1995. The transition from the current royalty regime to the generic terms will extend over a 10-year period beginning in the year in which more than 50% of the production to Suncor's upgrading plant comes from the Steepbank Mine. This is expected to take place in 1999. The terms of the agreement provide Suncor with additional allowable cost deductions to a maximum of $158 million per year for 10 years. These deductions are related to Suncor's original investment in the Oil Sands facility. Royalty payments beginning in the third year of the transition period will be based on royalty rates prescribed by the generic oil sands royalty terms. The generic oil sands royalty regulation requires payments to the Alberta Government of 25% of revenues less allowable costs, subject to a minimum payment of 1% of gross revenues.

Expenses Increase

Oil Sands earnings in 1997 were affected by higher operating expenses, which reduced earnings by $10 million. The increased expenses reflect higher bitumen volumes, higher depreciation charges associated with recent capital additions, and continued spending on the Steepbank Mine and fixed plant expansion. The estimated cost of **reclamation work** was revised in the year, resulting in a reduced charge to earnings.

Earnings Analysis
($ millions)

Reduced royalties was the primary factor in the 9% improvements in earnings.

Net Cash Deficiency Analysis
($ millions)

The scheduled maintenance shutdown and investments in plant expansion and the Steepbank mine were the primary factors in reduced net cash flow.

Maintenance Shutdown
Long-term preventative maintenance activities that involve shutting down major parts of, or an entire facility.

Overburden
Material overlying the oil sands that must be removed before mining. Consists of muskeg, glacial deposits, and sand.

Cash Costs Per Barrel Decrease, Cash Margin Increases

Cash costs per barrel decreased in 1997 to $14.75 from $15.75 in 1996. The decrease resulted primarily from record production and a return to normal sustaining capital spending levels. In 1996 Oil Sands made significant investments in infrastructure for consolidated tailings technology and modifications to the upgrading and energy services plants to improve performance and support Suncor's growth strategy. Cash costs are expected to be about $13.25 in 1998, reflecting planned increases in production to a daily average between 90,000 to 95,000 barrels.

Oil Sands' cash margin was $10.49 per barrel in 1997, $2.12 per barrel or 25% higher than in 1996. The increase was due to the lower cash cost per barrel and a $1.65 per barrel decrease in royalties for the reasons noted above. Cash costs per barrel are expected to decline in tandem with targeted increases in production and an increasing proportion of sour crude, which is less costly to produce. However, the sale of a higher proportion of **light sour crude oil** is expected to reduce average margins, since light sour crude sells at a discount to light sweet crude. The chart on page 17 shows margins over the past five years.

Light Sour Crude Oil
Requires only partial upgrading and contains a higher sulphur content than light sweet crude oil.

Other

Gains from the sale of assets in 1997 were $7 million lower than in 1996.

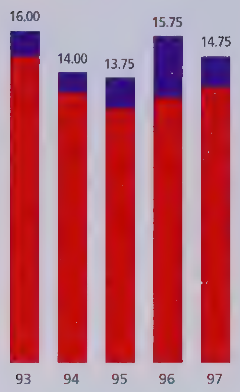
Net Cash Deficiency Analysis

Cash Flow From Operations Up 4%

Cash flow from operations in 1997 increased to $331 million from $318 million in 1996. However, increased investing activities resulted in a $204 million decrease in net cash flow, and a net cash

Reclamation Work
Also see note 13(a) to the financial statements.

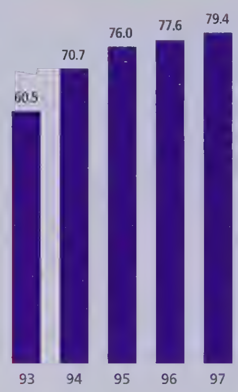
Cash Costs
($ per barrel)



- Sustaining Capital
- Operating Cash Costs

Expenditures on operating reliability, safety and efficiency increased operating cash costs, while a reduction in infrastructure spending reduced sustaining capital.

Production
(thousands of barrels per day)



Record production in each of the last four years reflects improved plant integrity, reliability and operating efficiency.

deficiency of $167 million. In 1996 there was a surplus of $37 million.

The $13 million increase in cash flow from operations to $331 million reflects the same factors that increased earnings, as well as a reduction in reclamation spending. (In 1996 Suncor made an investment in consolidated tailings infrastructure.) This favourable impact was partially offset by $8 million in higher spending on accelerated overburden removal.

Working Capital
The excess of current assets (excluding cash) less current liabilities. The excess measures the ability of a business to finance current operations, for example, whether debt will need to be incurred to fund growth activities.

Working Capital
The change in working capital of $4 million year over year primarily reflects increased accrued liabilities from greater growth activity, partially offset by the reduction in royalty liabilities.

Investing Activities
Investing activities increased $221 million over the $310 million in 1996. This reflects increased spending on the current Steepbank Mine and fixed plant expansion, expenditures related to Project Millennium, and costs associated with the planned 30-day maintenance shutdown. In 1997, Oil Sands invested $348 million on the Steepbank Mine and fixed plant expansion projects.

In 1998 Oil Sands plans to invest almost $500 million in growth projects. These include the current Steepbank Mine and fixed plant expansion, as well as continuing work on Project Millennium. A breakdown of Oil Sands capital spending is shown in the Table on page 30.

Outlook
Phased Growth
Suncor believes phased growth is the best approach to building shareholder value. The following description outlines the various phases of Oil Sands growth that began in 1993.

- The initial phases of Oil Sands expansion, up to the completion of the 1997 planned maintenance shutdown in May of 1997, involved various capital projects that increased production from 59,000 to over 85,000 barrels per day.
- The phase currently in progress involves the Steepbank Mine and fixed plant expansion at a cost of $660 million. This phase is expected to increase daily production to 105,000 barrels per day by the end of 1998. It includes the new bridge completed in 1997, which crosses the Athabasca River and connects the Steepbank Mine to Suncor's oil sands plant.
- The $2.2 billion Project Millennium, announced in July of 1997, will build on the Steepbank Mine and fixed plant expansion in two further phases of growth. The first phase of Millennium, called the production enhancement phase (PEP), is designed to increase production to 130,000 barrels per day in 2001. PEP is estimated to cost $190 million.
- The second part of Millennium will be the biggest phase of growth to date at Suncor's oil sands operation. The current plan calls for an expanded mine, additional mining equipment, increased energy services support, and twinning of the bitumen extraction and upgrading processes. This $2 billion phase of Project Millennium is designed to increase Suncor's oil sands production to 210,000 barrels per day in the year 2002, with an estimated capability of 35 years of production at this level. As production reaches 210,000 barrels per day, economies of scale and technological and reliability improvements are targeted to reduce cash costs to the $10 to $11 per barrel range.

Regulatory and Board Approvals
Before proceeding with the second part of Project Millennium, Suncor must obtain approval from government regulatory agencies. Suncor's applications for approval will be based on stakeholder consultation and a $90 million technical, environmental and socio-economic assessment to determine an efficient and responsible approach to the expansion. Suncor expects its environmental and socio-economic impact assessment to be complete in April of 1998. At that time the company will file a joint application to Alberta Environmental Protection and the Alberta Energy and Utilities Board. Decisions from regulatory agencies are expected in early 1999.

Suncor's Board of Directors is expected to make a final decision on the expansion by September of 1998. Construction work on the second phase of Project Millennium is then scheduled to begin in 1999, contingent on receiving all approvals.

Risk Factors Related to Project Millennium

Unforeseen delays in gaining required approvals from regulatory agencies could result in higher costs and/or project delays. Management believes that Suncor's phased approach to growth, its proactive consultation with stakeholders and its commitment to responsible environment, health and safety management will reduce the risks or uncertainties associated with the approval process.

Other risks relate to the project's schedule and costs. A large engineering and construction workforce will be required to build the expanded facilities. With the announcement of other possible major construction projects in the region, availability of skilled people is a concern. The increased economic activity in the region could also result in higher labour and materials costs.

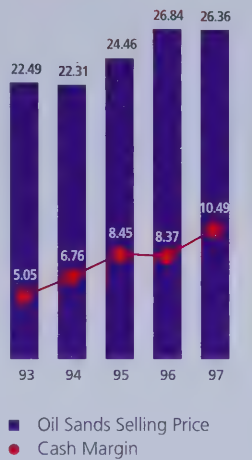
Initiatives Support Oil Sands Expansion

In July of 1997, IPL Energy Inc. (IPL) and Suncor Energy Inc. announced that the separate pipeline projects proposed by each company to transport oil products from the Athabasca oil sands region of Alberta would be combined into a single $325 million project, to be paid for, constructed and owned by IPL Energy Inc.

The planned capacity of the new Wild Rose Pipeline is in excess of 500,000 barrels per day, sufficient to meet the anticipated requirements of Suncor's expanded production. Suncor has committed volumes to the pipeline under a long-term shipping agreement. The 30-inch-diameter line will start near Fort McMurray and proceed south through the Cold Lake region to Hardisty, Alta., providing access to other pipeline systems, including IPL's. Pending regulatory approval, construction is scheduled to begin in 1998 and is expected to be completed early in 1999. Delays in pipeline construction could impact Oil Sands' ability to move expanding production volumes.

In early 1998 Novagas Canada Limited Partnership (NCL) and Suncor reached an agreement for NCL to develop a project that will extract and separate natural gas liquids and olefins from "off-gas," a by-product of the oil sands upgrading process. Under the agreement, Suncor will supply the project with off-gas from its oil sands facility. NCL will build an extraction facility near Suncor's oil sands operation to remove natural gas liquids and olefins from the off-gas. The recovered liquids and olefins will then be transported in batches via Suncor's 385-kilometre Oil Sands Pipe Line to NCL's Redwater fractionation facility for further processing.

Cash Margins*
($ per barrel)



Cash margins increased by 25% on the strength of lower cash costs and royalties. Royalties lower due to crown environmental credit received in 1997.

* **Cash Margin** – The difference between the price received for products sold, and cash cost per barrel plus royalties. The cash cost per barrel includes cash operating costs, sustaining capital, reclamation cash expenditures and the amortization of deferred maintenance shutdown expenditures. Cash cost excludes strategic capital expenditures.

Price – The average price from the sale of crude oil and related products, including the impact of hedging activities.

Suncor also entered into an agreement with Nova Pipeline Ventures Limited Partnership (NPV) that will provide Suncor with firm capacity on a new natural gas pipeline to be constructed by NPV. The pipeline is anticipated to meet Suncor's foreseeable needs for transportation of natural gas to its Oil Sands facility. The natural gas liquids extraction agreement and the NPV pipeline agreement are subject to regulatory approval.

Risk/Success Factors Affecting Overall Performance

The profitability of Suncor's Oil Sands business is influenced by crude oil prices, which are difficult to predict and impossible to control. Unplanned production outages and slowdowns, particularly those related to severe climactic conditions, can be expected from time to time.

Environmental Responsibility

Suncor's Oil Sands business will continue working to reduce overall greenhouse gas emissions on a per barrel basis as production increases. Although new technology is expected to provide opportunities to improve environmental performance, some emissions are expected to increase as production rises.

The cumulative environmental impact of proposed oil sands development in the region could be an issue if other proposed new projects move forward. Oil Sands takes these concerns seriously and is working with the other players in the area to study possible cumulative impacts.

Exploration & Production

Overview

Suncor's Exploration and Production (E&P) business, based in Calgary, Alberta, explores for, acquires, develops, produces and markets crude oil, natural gas liquids, natural gas and various by-products from the Western Canadian Sedimentary Basin.

E&P has a total proved reserves base of 179 million barrels of oil equivalent (BOE), representing a 41% increase in proved reserves since 1994. In the same time period, this business has increased its daily production by 38%. In 1997 E&P achieved a three-year average reserve replacement ratio of 220% at a finding and development cost of $6.25 per BOE of proven reserves.

The focus of E&P is to expand Suncor's natural gas business. The company sees continued improvement in the North American natural gas industry. Since 1994 E&P's natural gas sales volumes have increased by 55%, while proved natural gas reserves have climbed by 45% in this same period.

Results of Operations/ Investing/ Exploration Activities

1997 vs. 1996

Exploration and Production – Summary of Results

($ millions unless otherwise noted)	**1997**	1996	1995
Revenue	**302**	264	191
Production (thousands of BOE* per day)	**40.3**	38.9	33.0
Average sales price			
Natural gas ($/thousand cubic feet)	**1.93**	1.50	1.14
Crude oil ($/barrel)	**22.22**	23.74	22.08
Earnings	**24**	22	10
Cash flow provided from operations	**162**	146	103
Total assets	**819**	719	614
Capital and exploration expenditures	**240**	187	201

* BOE is a measure which converts gas to oil on the approximate long-term economic equivalent basis that 10,000 cubic feet of gas equals one barrel of oil.

Earnings Increase on Improvement in Natural Gas Business

E&P's earnings increased to $24 million in 1997, up 9% from $22 million in 1996. During the year, cash flow from operations rose to $162 million from $146 million in 1996. The higher earnings and cash flow resulted primarily from increases in natural gas prices and volumes.

In 1997 Suncor's natural gas price averaged $1.93 per mcf compared with $1.50 per mcf in 1996. In 1997 E&P's average price is expected to be near the industry average for the year. The stronger price was influenced by several factors in 1997. The cold winter of 1996/1997 helped increase demand and put upward pressure on prices. However, growing natural gas production in Western Canada and a continuing shortage of export pipeline capacity prevented Canadian natural gas prices from increasing in line with higher netback markets in the U.S. Based upon early mild winter conditions for 1997/1998, North American natural gas prices may be below 1997 levels and could produce downward price pressure on E&P and industry's 1998 average price. Increasing export pipeline capacity over the next several years is expected to increase access to other markets and provide support for higher average prices.

Adding to the improvement in the average natural gas price was an improved California market, where demand strengthened and benefits were realized from changes to tolling policies. In 1997 the average price received for E&P's sales in the California market was Cdn$1.70/mcf, compared with Cdn$0.88/mcf in 1996. California represented about 17% of E&P's 1997 sales volumes.

During 1997 Suncor entered into a five-year agreement with Enron Capital and Trade Resources Canada Corp. (ECT) that is expected to enhance the value of its natural gas portfolio in the North American market. The agreement contracts ECT to provide operational, marketing and administrative services for Suncor's natural gas portfolio. In 1997 ECT and Suncor began assessing E&P's North American natural gas business to identify further value-enhancing opportunities.

A net improvement in commodity prices, led by a 29% increase in natural gas prices, improved earnings by $5 million compared to 1996. A year-over-year reduction in **hedging** losses further improved earnings by $10 million. Together, the improved commodity prices and impacts of the hedging program in 1997 resulted in increased earnings over 1996 by $15 million.

1997 Reserve Replacement Ratio of 200% Lays Foundation for Production Growth

E&P broke all of its previous production records in 1997, with annual oil and natural gas volumes rising 4% to 40,300 BOE per day compared with 38,900 BOE per day in 1996. Production fell short of the 1997 target by 2,500 BOE per day, although production in the month of December climbed to 42,000 BOE per day. Reduced availability of drilling rigs combined with poor weather conditions in the first half of 1997 contributed to the production shortfall. It is anticipated that drilling rigs will continue to be in short supply. E&P is addressing this issue by working to have drilling locations prepared earlier to provide more flexibility in securing available drilling rigs.

The impact of the overall increase in volumes in 1997 had a positive effect on earnings of $3 million compared with 1996.

Critical to the growth in production volumes has been a successful program of finding and developing new oil and natural gas reserves. This year E&P replaced 200% of its production with proved oil and natural gas reserves, exceeding its target of 150%. This brings the three year average reserve replacement ratio to 220%.

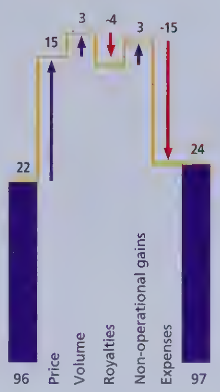
The 1997 gain in proved reserves was accomplished at a finding and development cost of $6.90 per BOE. This brings the three-year average finding and development cost to $6.25 per BOE. Finding and development costs in 1997 exceeded E&P's $6.00 per BOE target due to increased drilling and property costs.

Although finding and development costs and reserve replacement ratios can vary from year to year due to market factors and exploration results, management continues to target top quartile performance on these measures. E&P has set a finding and development goal of $6.40 per BOE at a reserve replacement ratio of 200% for the three years ending in 1998.

Royalties

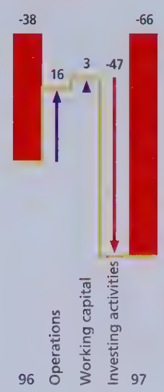
The 29% increase in natural gas prices, combined with a 6% increase in natural gas volumes, resulted in an overall increase in royalty expense for the year of $4 million.

Earnings Analysis
($ millions)



Improved natural gas performance makes positive contribution to earnings.

Net Cash Deficiency Analysis
($ millions)



The increase in net cash deficiency resulted from the increased exploration and development activity in achieving 200% reserve replacement ratio.

Expenses

Revenue gains were partially offset by a $9 million increase in cash expenses in 1997. **Lifting costs** increased by $3 million, reflecting E&P's higher production volumes and the provision for **reclamation costs** increased by $1 million due to an increase in the cost estimate. Exploration expenses increased by $3 million due to higher seismic costs, and general and administrative costs increased by $2 million as a result of growth initiatives in heavy oil and in South America, as well as costs associated with upgrading information systems.

Non-cash expenses also increased by $6 million over 1996 levels reflecting higher production volumes and a higher depletion rate per BOE.

The combination of higher cash and non-cash expenses reduced earnings by $15 million over 1996 levels.

Other

Non-operational gains from property sales were higher in 1997 compared with 1996. The objective of E&P is to invest proceeds from property sales in opportunities with greater value potential.

A non-recurring gain was realized in the fourth quarter as a result of the sale of a portion of E&P's pipeline capacity on the Northern Border pipeline into the U.S. Midwest.

Combined these items increased earnings by $3 million in the year.

Net Cash Deficiency Analysis
Cash Flow From Operations Up 11%

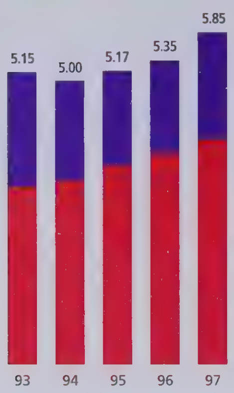
E&P had a net cash deficiency of $66 million, up from $38 million in 1996. The deficiency increase primarily reflects the higher level of capital and

Hedging
Companies use derivatives to hedge or counteract possible fluctuations in the price of commodities or interest rates. This permits mitigation of price or interest rate risk due to market fluctuations.

Lifting Costs
Includes all expenses related to the operation and maintenance of producing or producible wells, gas plants and gathering systems. Excludes the provision for reclamation costs.

Reclamation Costs
Also see note 13(a) to the financial statements.

Lifting and Administration Costs
($ per barrel of oil equivalent)



Growth initiatives and industry cost pressure pushed lifting and administrative costs higher in 1997.

Reserve Replacement Ratio
(percentage – three-year average)

1997 E&P replacement ratio anticipated to rank in top quartile in industry. 200% replacement goal for 1998.

Reservoir
Body of porous rock containing an accumulation of water, crude oil or natural gas.

exploration expenditures, partially offset by an 11% increase in operating cash flow due to higher natural gas prices and volumes.

In 1998 E&P plans to improve its net cash deficiency position. This improvement should result from planned increases in production volumes, ongoing price and cost management and proceeds realized from portfolio optimization initiatives. Over the next three year period E&P plans to be self-funding.

Working Capital
Working capital changed by $3 million when compared to 1996 mainly due to the difference in year-end natural gas prices and its impact on accounts receivable.

Capital and Exploration Investing Activities
Net capital and exploration investing activities were $47 million higher in 1997 than in 1996. The increased capital investment in 1997 was primarily focused in the Western Canada Sedimentary Basin. There was also a $5 million increase over 1996 capital expenditures in E&P's heavy oil portfolio. The increase was due in part to a $16 million investment in heavy oil leases in the Firebag region of the Athabasca oil sands. In addition, E&P invested $7 million related to increasing its working interest in its Rosevear natural gas property. Capital investing activities in 1998 are expected to total almost $230 million, with the breakdown as shown in the Table on page 30.

Aggregators
A company that consolidates a number of individual users and/or suppliers into a group in order to buy/sell natural gas.

Outlook
Activity Remains Focused on Western Canada
Management continues to believe that the Western Canada Sedimentary Basin provides Suncor's E&P business with opportunities to expand its reserve and production base. Suncor believes its future success in this area depends on its ability to demonstrate several competitive strengths:

- a consistently funded and strategically focused exploration and development program;
- a large and geographically focused inventory of proved reserves, providing potential for production growth;
- top-quartile finding and development costs and reserve replacement ratios;
- early production from new **reservoirs**; and
- effective cost management and product marketing.

E&P measures its investment success by its finding and development costs and reserve replacement ratios. The rate at which E&P develops its new reserves is reflected in year-over-year production volume increases, while cost management and product marketing activities are reflected in earnings and cash flow from operations.

Suncor is targeting top quartile finding and development performance for 1998, with a 200% proved reserve replacement ratio. Production in 1998 is targeted at 45,000 to 47,000 BOE per day.

Emphasis on Natural Gas Continues
In 1998 Suncor will continue to emphasize its natural gas business based on management's belief that demand for natural gas in Canada and the U.S. will continue to climb. In 1998, E&P expects that the natural gas component of its production will again increase, representing 62% of its production, up from 60% in 1997 and 53% in 1994.

Suncor markets its natural gas production in ways that provide broad market access and a diversified pricing base. About 71% (1996 – 68%) of natural gas production is sold directly into U.S. and Canadian markets through various pipelines (including internal sales to Suncor's oil sands facility and Sarnia refinery). The remaining 29% (1996 – 32%) of production is made up of systems sales to various natural gas **aggregators** (see charts on top of page 21). In late 1997, Suncor increased its marketing flexibility by reducing its existing pipeline commitments to the U.S. Midwest.

Portfolio Optimization Strategy Sharpens Focus
Suncor initiated a property portfolio optimization program in the fourth quarter of 1997 to increase the value of its heavy oil and conventional reserve and production base. The objective of the program is to capture full value for the sale of non-core properties and reinvest the proceeds in exploration, production and acquisition of strategic properties.

In this initial phase, E&P has identified for sale non-core properties representing daily production of about 600 BOE with proven reserves of 1.6 million BOEs. Management believes that the sale of these properties will result in a net gain.

Heavy Oil a Long-Term Growth Priority

Heavy oil development is one of Suncor's long-term growth priorities.

In the first quarter of 1997, Suncor commenced production at its Burnt Lake heavy oil pilot plant. The project uses steam injection and horizontally drilled well pairs — a technology called Steam Assisted Gravity Drainage (SAGD) — to mobilize the oil.

Suncor is testing the SAGD technology to allow the company to model recovery performance and the long-term reserve life of the Burnt Lake heavy oil deposits. By year end production averaged 1,400 barrels per day (**Suncor's share:** 1,100 barrels per day), up from 750 barrels per day in the second quarter of 1997. Suncor continues to assess the potential of further development of its Burnt Lake assets.

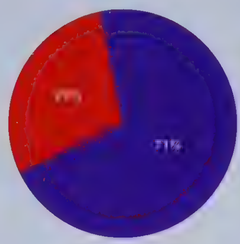
Based on encouraging results from the SAGD technology pilot at Burnt Lake, Suncor invested $16 million to acquire an additional 27,500 hectares in the Firebag area. Located 40 kilometres away from Suncor's oil sands operation, the Firebag leases could provide a future supplementary feedstock to Suncor's oil sands plant and take advantage of infrastructure efficiencies.

An anticipated industry increase in heavy oil production in the coming years could produce even more downward pressure on heavy oil prices and could increase the price differential between heavy and light crudes. Suncor will focus its efforts on identifying the reservoirs and the technology that can deliver the most value from its heavy oil assets.

Potential Opportunities in South America

In 1997, Suncor continued its pursuit of growth opportunities in South America. The opening of the oil and gas industry to the private sector, along with regulatory and economic reforms in this area of the world, have created a range of investment opportunitities. While Suncor has not acquired any interests to date, possible entry strategies into this market include joint ventures, **farm-in** arrangements and acquisitions.

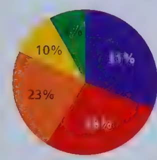
1997 Suncor Natural Gas Markets
(240 mmcf/d)
(percentage)



Direct 71%
System 29%

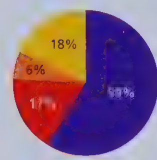
Portfolio approach and marketing agreement with Enron Capital and Trade Resources Canada Corp. provides access to expanded markets throughout North America.

Direct



Midwest 28%
California Pacific 23%
Eastern Canada 10%
British Columbia 8%
Alberta 31%

System



Trans Canada Gas Services 59%
PanAlberta 17%
Canwest 6%
Other 18%

Suncor's Share
Suncor's interest before deducting royalties.

Risk/Success Factors Affecting Performance

Suncor's current oil and natural gas activities include exploration, development, production, acquisitions, divestments and marketing components. The risks associated with these activities, along with commodity pricing, should not be underestimated or viewed as predictable. Suncor expects that natural gas pricing will continue to be volatile due to the cyclical nature of the supply and demand for this commodity. Even so, management believes the most important contributor to shareholder value in the E&P business is the ability to consistently find and develop low cost, high-quality reserves that can be economically brought on stream.

Before proceeding with exploration and development activity, Suncor must obtain regulatory approvals based on stakeholder consultation and environmental impact assessments. Management believes that any risks or uncertainties associated with the approval process are reduced by proactive consultation with stakeholders and a commitment to environment, health and safety performance.

Market demand for land and services can increase finding and development costs.

There are also inherent risks in investing in business ventures in foreign countries. Any such opportunities will be carefully assessed and subjected to appropriate due diligence and management approval processes.

Farm-in
An arrangement where a company will incur costs on a property held by another party. This allows the company to earn an interest in the property.

Sunoco

Overview

Sunoco carries out its business operations through three divisions: refining/wholesale, retail marketing and a new energy marketing business.

Located in Sarnia, Ontario, Sunoco's refinery has a capacity of 70,000 barrels of crude oil per day and average refining sales of 89,000 barrels per day. This complex refinery has the flexibility to produce a high proportion of transportation fuels and value-added petrochemicals. In each of the past three years, the Sarnia refinery achieved 94% or greater utilization of crude refining capacity, with 1997 utilization at 97%. During the year, Sunoco's share of the total refined product sales in its primary market of Ontario was approximately 18%, compared with 17% in 1996.

Production from the refinery is marketed through several distribution channels with established positions in four distinct and highly competitive markets:

- 322 Sunoco retail service stations in Ontario, located primarily along the main transportation corridors between Windsor and Ottawa;
- A 50% joint venture partnership with Pioneer Petroleums, an independent retailer with 148 Pioneer branded service stations;
- UPI Inc., a 50% joint venture company with GROWMARK Inc. (a large U.S. Midwest agricultural supply and grain marketing co-operative), which operates 65 retail sites in rural Ontario and sells conventional and ethanol-blended gasolines, diesel and heating oil to commercial and farm customers; and
- A 50% joint venture with Sun Company, Inc.'s refinery in Toledo, Ohio, which markets a total of 2,800 m^3 per day of petrochemicals worldwide.

Approximately 89% of the Sarnia refinery's gasoline production is sold through secured distribution channels. The remainder is sold to wholesale, commercial and industrial accounts in Ontario and Quebec.

In 1997, Sunoco's new energy marketing business established its presence in the residential and commercial natural gas marketing business in Ontario, the first step in Sunoco's goal of broadening its role as an integrated energy services provider.

Results of Operations and Investing Activities
1997 vs. 1996

Sunoco Results Summary

($ millions unless otherwise stated)	1997	1996	1995
Revenue	**1 673**	1 638	1 516
Refined product sales			
(thousands of cubic metres)			
Retail gasoline	**1 387**	1 407	1 544
Total	**5 182**	4 878	4 922
Earnings (loss) breakdown:			
Refining/wholesale	**34**	30	37
Retail marketing	**10**	2	(1)
Energy marketing	**(5)**	–	–
Total	**39**	32	36
Cash flow provided from operations	**121**	90	106
Investing activities	**55**	75	48
Net Cash Surplus	**30**	20	62

Earnings Increase

Suncor's 1997 earnings from its refining and marketing business increased to $39 million from $32 million in 1996. The earnings increase was realized after a $4 million realignment provision at the refinery and $5 million in start-up costs associated with the new energy marketing business. The earnings improvement was primarily due to higher refining and retail margins as well as higher refining volume, partially offset by higher expenses.

Refining — Higher Margins Increase Refining Profit

Earnings from refining activities were up 27% to $38 million compared with $30 million in 1996, but after providing for a realignment charge at the refinery, reported net earnings were $34 million. Earnings were stronger primarily due to higher margins especially during the third quarter as a result of very high demand for gasoline throughout

North America. Overall, Sunoco's refining margin averaged 4.6 cents per litre (cpl) in 1997 compared with 4.4 cpl in 1996. The stronger margin and volume growth each added $5 million to the improvement in the refining profit.

Expenses increased $2 million as a result of higher natural gas and steam costs and higher non-cash costs related to new systems that were only partially offset by lower fixed refining costs.

In addition, ongoing technology improvements have made possible a more effective deployment of the workforce at the Sarnia refinery. As a result, a realignment provision reduced earnings in 1997 by $4 million.

Retail Marketing — Earnings Improve

Retail marketing operations earned $10 million compared with $2 million in 1996. This increase was reflected in both a Sunoco retail earnings improvement of $6 million and a joint venture profitability improvement of $2 million.

Sunoco and its joint venture operations had an 18% share of Ontario retail gasoline market (1996 – 17%) and has a number of new initiatives aimed at further increasing that market share.

Higher Sunoco retail margins of $9 million were the primary reason for the improved performance. Margins averaged 6.8 cpl in 1997, compared to 5.7 cpl in 1996.

The favourable impact of margin improvement was partially offset by $2 million due to higher non-cash charges associated with technology enhancements and a $1 million non-operating gain realized in 1996.

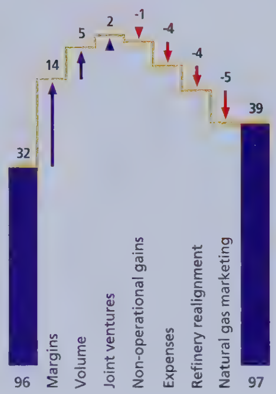
In 1997, Sunoco expanded the marketing of environmentally friendlier ethanol-enhanced gasolines to all its branded network. These gasolines are sold at the same price as gasolines that are not ethanol-enhanced, and can reduce carbon monoxide emissions by as much as 30%.

Sunoco is piloting a strategy that will incorporate increased capital investment in retail sites and strategic partnerships with other convenience retailers. The goal is to broaden Sunoco's offering of products and services in order to build customer loyalty, improve sales and increase market share.

Sunoco Enters Natural Gas Marketing Business

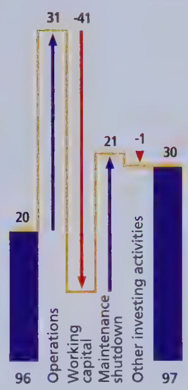
In 1997 Sunoco entered the residential and commercial natural gas business in Ontario. This initiative is expected to be the first step in the broadening of Sunoco's energy offering. Sunoco's earnings were reduced by $5 million in the year due to costs associated with this business development.

Earnings Analysis
($ millions)



Recovery of margins from last year's low levels was a key factor in improved operating earnings in 1997. Benefit partially offset by refinery realignment and start-up costs for natural gas business.

Net Cash Surplus Analysis
($ millions)



Improved cash flow in 1997 was the result of stronger earnings and minimal maintenance shutdown spending at the refinery, partially offset by an increase in working capital.

Net Cash Surplus

Cash flow from operations increased $31 million to $121 million compared with $90 million in 1996, reflecting the improved earnings. Net cash flow was $30 million in 1997 compared to $20 million in 1996.

As a result of lower trade payables reflecting the lower price for crude oil and an increase in inventory, working capital increased by $41 million.

Investing Activities

Net investing activities in 1997 were $55 million, $20 million lower than the $75 million level in 1996. The major factor for the decrease was planned maintenance shutdown and catalyst spending, which was $21 million lower in 1997 due to the high activity level in 1996. A total of $7 million in 1997 (out of the $55 million of total spending) was directed to environment, health and safety programs. Sunoco plans capital investments of nearly $100 million in 1998, primarily in technological improvements at the Sarnia refinery, as well as beginning the redevelopment and broadening of products and services of the retail network. See page 30 for a breakdown of planned 1998 spending.

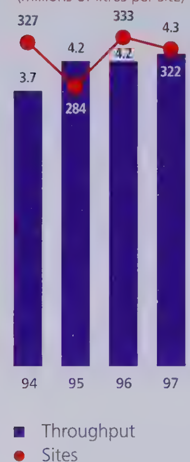
Environmental Responsibility

Sunoco continues to focus on and address environmental issues that face Ontario and Canada. Sunoco's retail operations contributed to reducing carbon monoxide and greenhouse gas emissions by expanding its ethanol-enhanced gasoline to all Sunoco-branded sites in late 1997. Automakers have expressed their support for ethanol-enhanced fuels, and Sunoco has earned the right to use Environment Canada's "EcoLogo" for its gasoline.

Margin
(cents per litre)

Improved business environment resulted in recovery of margins. Rationalization within retail market in recent years provided greater margin stability throughout 1997.

Sunoco Ontario Branded Retail Network Efficiency*
(millions of litres per site)



Site throughput increased 5% in 1997 as efforts to improve site efficiency continue to translate into improved results.

* **Throughput per site** – Millions of litres per site based on the average number of sites at the beginning and end of the year.
Sites – Number at year end, excluding joint-venture-owned sites.

The Ontario Ministry of Environment and Energy presented Sunoco with its highest-level award for outstanding performance associated with the province's Pollution Prevention Pledge Program. The award recognized Sunoco's diligence in service station pollution prevention, with no underground gasoline storage tank leaks detected across the Sunoco-branded network in 1996. Sunoco also earned the right to place Environment Canada's "EcoLogo" at its service station car washes, making Sunoco the first car wash service provider in Canada to gain this certification.

A new tall stack economizer was commissioned at Sunoco's Sarnia refinery in early 1997. The unit reduces carbon dioxide emissions by 20 thousand tonnes per year through the recovery of waste heat to produce additional steam used in the manufacturing process and reduces operating costs by approximately $1 million per year.

Outlook

Restructuring Complete

Having largely completed the restructuring of its business, Sunoco is now moving forward with its vision of future growth.

Broader Energy Offering With First Step Into Natural Gas

Sunoco's entry into the natural gas business in 1997 was a first step in broadening its energy portfolio in Ontario. Now that Sunoco has developed a customer base in the natural gas business, efforts will be focused on increasing market share.

Refinery Realignment Sets Stage for Top-Quartile Status

The Sarnia refinery is continuing a competitive realignment that is expected to position it in the top quartile of North American refineries of the same size and complexity in profitability and efficiency by the year 2000. The ongoing investment in technology, including reinstrumentation, advanced process controls and automation, enables a more effective deployment of its workforce. The number of positions at the Sarnia refinery will be reduced over the next four years by approximately 80. With growth occurring in Suncor's other businesses, the company has a strong need for the skills and experiences of the affected employees, many of whom will be provided opportunities to relocate. The benefit of these initiatives is expected to reduce refining costs and have a positive impact on Sunoco's earnings.

Retail Marketing Business a Top-Decile Performer

Sunoco-branded retail continues to be in the top decile of Ontario retailers as measured by throughput per site. Sunoco has employed ongoing strategic initiatives to differentiate it from its competitors, with an emphasis on delivering high-quality, cleaner-burning performance fuels, and is piloting a strategy designed to broaden Sunoco's retail offering to consumers and increase sales of convenience products.

During 1997, Sunoco entered into a strategic alliance with the Canadian Automobile Association (CAA). CAA members earn up to 2.5% of total Sunoco purchases, which is automatically credited towards their next CAA membership renewal. This loyalty program with Canada's leading motoring authority gives Sunoco access to 1.7 million CAA members in Ontario and provides an opportunity to market retail gasoline and natural gas to this group. It is too early to assess the impact this initiative will have on earnings, but management believes the relationship will show positive returns.

Sunoco also plans to expand into the diesel truck-stop market, with several initiatives currently under way to develop the company's presence in this market. The first Sunoco Fleet Fuels cardlock opened in early January of 1998. This initiative should allow Sunoco to sell more of its diesel production through its own network.

Risk/Success Factors Affecting Performance

While the downstream business environment improved in 1997, as reflected in improved earnings and margins, it is expected that margin volatility and overall marketplace competitiveness will continue. Seventy-nine per cent of Sunoco's total operating cash flow is generated by the refining business. With its flexibility in product mix and other competitive advantages, the refinery is expected to continue to be a cash flow generator for Sunoco.

Retail gasoline margins improved in 1997, resulting in stronger earnings in the Retail Marketing operations. Despite this improvement, overall net profit was less than one cent per litre for the year.

In December 1997, the National Energy Board authorized reversal of the flow of the Interprovincial Pipeline from Sarnia to Montreal (Line 9). The reversal had been advocated by a number of Ontario refiners in order to provide access to competitively priced offshore crude oil. Sunoco did not participate in this industry initiative. The National Energy Board ruling makes 20% of the capacity of Line 9 available to shippers, including Sunoco, outside the group of refiners advocating the flow reversal. While the implications of the reversal are difficult to predict, management does not believe the reversal will have a material impact on Suncor's refining business.

In 1995, the Canadian Council of Ministers of the Environment endorsed recommendations from a task force addressing air quality issues. Among other items, the recommendations call for tougher national standards for vehicle emissions and fuels to reduce pollution from automobiles. Based on these recommendations, the federal government drafted regulations for cleaner-burning gasolines that would include limits on benzene emissions effective July 1, 1999. The Sarnia refinery is equipped with a processing unit that removes benzene from gasoline.

In addition, a panel consisting of government, industry and other stakeholders examined whether, and when, the sulphur concentration in gasoline should be reduced. As a result of this study, the Canadian refining industry will probably be faced with significant capital spending. Due to its refinery configuration and the availability of low sulphur crude oil from Oil Sands, Sunoco believes it has a competitive advantage in producing reformulated gasoline to meet potential higher environmental standards. Effective January 1998, a federal regulation also requires low sulphur diesel for on-road use. Sunoco is currently able to produce low sulphur diesel as a result of its refinery's flexibility. Depending upon market factors impacting product prices, Sunoco may decide to invest in sulphur removal facilities in the future.

A new Sunoco station in Newmarket, Ontario, offers customers a wide range of convenience products and services.

More for Customers

Sunoco is piloting a strategy that will incorporate increased capital investment in retail sites and strategic partnerships with other convenience retailers. The goal is to broaden Sunoco's offering of products and services in order to build customer loyalty, improve sales and increase market share.

Suncor Energy's corporate executive team *(left to right)* Terry Hopwood, Rick George, Dave Byler, Sue Lee, Tom Ryley.

Corporate

Overview

Suncor's corporate centre serves a number of roles, including the provision of support to Suncor's business units and the Board of Directors. Corporate centre employees are accountable for functions such as legal, taxation, risk management, company-wide human resource programs, treasury, corporate finance, planning and business development, corporate communications, and regulatory reporting at the corporate level.

Results of Operations and Investing Activities 1997 vs. 1996

Deferred charges
Also see Note 10 to the financial statements.

Long-term incentive plan
Also see Note 13(b) to the financial statements.

Corporate expenses decreased to $19 million ($30 million excluding the income tax refund) in 1997, down from $31 million in 1996. This decrease reflects lower operating expenses, including the reduction of costs ($3 million) associated with the assessment of the Stuart Oil Shale Project that was approved in 1997. Partially offsetting these reductions were higher interest costs as well as a $1 million cost associated with the introduction of a **long-term incentive plan**. If Suncor's share price reaches $80 and financial and operating performance targets are reached, the plan would fully pay out. In conjunction with this payout there would be a pre-tax earnings impact of approximately $90 million over the five-year period of the incentive program and there would be a more than $3 billion increase in share value.

An $11 million income tax refund adjustment was recorded in 1997. Further discussions are ongoing with tax authorities to resolve a number of additional outstanding issues. It is expected that discussions will be concluded in 1998, and any additional adjustments recorded at that time. These adjustments are not expected to have a material effect on Suncor's financial performance.

The net cash deficiency of $100 million in 1997 increased from a deficiency of $84 million in 1996. The increase is primarily due to investing activities of $70 million related to the Stuart oil shale project. Overall increases in Suncor's capital expenditures in 1997 were largely offset by a $64 million decrease in income tax payments. This reflects the lower cash tax obligations in the upstream portion of our business due to the high level of capital spending.

Consolidated Balance Sheet Analysis

Crude oil prices impact Suncor's business in many ways with the effects shown in both the company's earnings statement as well as on its balance sheet. On the asset side of the balance sheet, lower crude oil and natural gas prices at the end of 1997 resulted in lower accounts receivable compared with the previous year end, despite higher production.

The high level of growth activity and investments made during planned maintenance shutdowns resulted in a 28% increase in capital assets and deferred charges that increased to $201 million from $175 million in 1996 in the non-current portion of the balance sheet. **Deferred charges** also increased due to the purchase of a $4 million equity stake in Suncor's Australian joint venture participants.

On the liability side, the impact of lower crude oil prices is reflected in reduced payables for crude oil purchased from third parties as well as lower liabilities related to royalties. Royalties payable were also lower due to the benefit of the environmental credit earned at the oil sands operation. Assuming similar prices and production levels in 1998, royalties will be higher due to the end of the environmental credit benefit in 1997. The income tax liability increased in 1997 because 1996 included a tax benefit from accelerated capital expenditures. 1997 tax installments were reduced to take continued high levels of capital spending into account.

The increase in deferred income taxes resulted primarily from an allowance providing for accelerated deductions on certain capital investments at Oil Sands that permit the deferral of income tax payments.

Consolidated Earnings Analysis

Sales and other operating revenues increased $54 million in 1997, to $2.2 billion. The increase primarily reflects a 5% increase in refined product sales volumes ($58 million) due to increased demand. Higher prices for natural gas also contributed $28 million to the revenue increase. Partially offsetting these positive factors were lower crude oil prices that reduced consolidated crude oil sales and the sales of refined products ($20 million) and lower third party crude oil sales volumes ($12 million) due to the maintenance shutdown at the oil sands operations.

Suncor's purchases of crude oil and other products increased by $5 million in 1997. The company acquired additional crude oil from third parties ($23 million) in order to supply the Sarnia refinery during the planned maintenance shutdown at Oil Sands. These additional costs were partially offset in the year by lower average costs for crude purchased from third parties and a reduction in the purchase of refined products from third parties. This was in part attributable to the highest utilization (97%) of the Sarnia's crude oil unit during the 1990s.

Operating, selling and general expenses rose to $705 million in 1997 from $682 million the previous year. The increase reflects higher volume-related ($23 million) costs in the upstream areas of the business. In addition there were $8 million in costs associated with Sunoco's entry into the natural gas marketing business and a provision ($7 million) for costs associated with the realignment at Sunoco's Sarnia refinery. These increases were partially offset by reduced costs ($5 million) in 1997 for the assessment of the Australian Stuart Oil Shale Project, a $5 million reduction of downstream expenses and a lower provision ($5 million) for reclamation costs, primarily due to the reduction of the estimate for reclamation activities in the oil sands operations.

Exploration expenses increased $6 million to the $50 million level due to higher seismic expenses that helped E&P to replace 200% of proved reserves.

Suncor's royalties decreased $39 million in 1997. The primary reason for the decline was a $31 million reduction to the Oil Sands Crown Royalty payment in conjunction with approved spending. There was no similar benefit realized in 1996. This decrease was partially offset by higher royalties associated with higher natural gas prices and volumes.

Depreciation, depletion and amortization ("non-cash" expenses) were up $30 million in 1997, to $234 million. A number of factors contributed to this increase, including: the higher capital base put in place to achieve production increases; expenditures incurred to improve environmental performance (e.g., a $190 million sulphur dioxide reduction plant commissioned in September 1996); and higher production levels from Oil Sands and E&P and a higher depletion rate per BOE in Suncor's E&P business.

The 34% effective tax rate in 1997 versus 41% in 1996 is due to the effect of lower non-deductible crown royalties and the impact of an income tax refund related to prior years. Management expects that the effective tax rate in 1998 will be in the 40% range due to expected higher non-deductible crown royalties in 1998.

Outlook

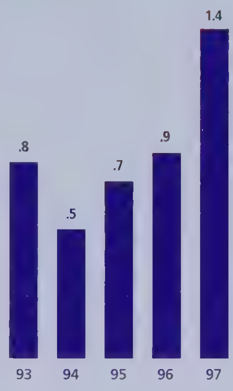
Growth Priorities

Suncor has plans for capital spending of over $4 billion over the next four years, and the company will continue to evaluate other growth opportunities. To balance any short-term financial constraints with longer-term investment opportunities, Suncor follows a phased approach to growth which is designed to allow the company to manage debt levels and reduce financial exposure. At the same time, management believes a phased approach enables Suncor to continue to identify, and participate in, a variety of growth opportunities.

In order of priority, Suncor's five long-term growth priorities are:

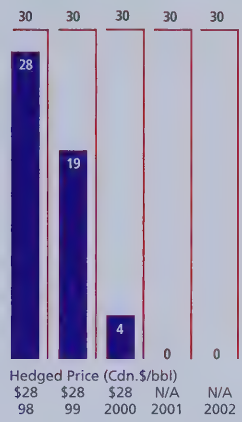
1. **Expand Oil Sands production.** A plan is in place to increase Oil Sands production to 210,000 barrels per day in 2002 from current production of 85,000 barrels per day. Suncor's commitment to this growth priority is demonstrated by the company's announced $2.2 billion Project Millennium expansion.
2. **Transfer Oil Sands technology and expertise to new businesses.** Suncor is seeking growth opportunities in surface mineable oil deposits (both sand and shale). In 1997 the company initiated the first phase of a project to test the commercial viability of producing oil from Australian **oil shale.**
3. **Seek opportunities to further integrate Suncor's upstream and downstream businesses and potentially expand the company's refining and marketing activities.** During 1997 Suncor

Ratio of Net Debt/Cash Flow from Operations



Ratio has increased and is expected to exceed management's target of 1.5 temporarily as capital spending on major growth initiatives accelerates.

Crude Oil Hedging Program Status



— Current annual limits for hedged volumes/dollars authorized by Board of Directors (%)

■ Percentage of annual crude oil production hedged as at Dec 31, 1997

Suncor uses hedging as a risk management tool to reduce earnings and cash flow volatility. Refer to Note 17 in the consolidated financial statements for additional information.

Oil Shale
Also see Note 15(b) to the financial statements.

began work to secure customers and transportation for its increasing oil sands production. These initiatives included a long-term supply agreement with Koch Oil Co. Ltd. and an announcement by IPL Energy Inc. to build a crude oil pipeline from Fort McMurray to Hardisty, Alberta. Suncor continues to evaluate several approaches to downstream integration through possible acquisitions, joint ventures or long-term agreements with other refiners.

4. **Evaluate potential of expanding Suncor's heavy oil interests.** Suncor is focusing its efforts on testing technology and identifying reservoirs that can deliver the most value from the company's heavy oil assets. These initiatives include the company's testing of steam-assisted gravity drainage technology at the Burnt Lake heavy oil pilot project and the acquisition of further properties in the Firebag area near Fort McMurray, Alberta.
5. **Seek international exploration and production opportunities.** Suncor is assessing opportunities in South American conventional oil and gas, with a focus on Brazil.

Risk/Success Factors Affecting Performance

Crude oil and natural gas prices and production levels can have a significant impact on Suncor's earnings and cash flow.

Suncor has increased its crude oil production by 45% since the beginning of the decade. The company's future performance remains closely linked to crude oil prices, which are expected to continue to be volatile. (In 1997, average monthly benchmark WTI prices ranged from a high of $25.20 per barrel to a low of $18.30 per barrel.) At the same time, the reduction in cash costs at Oil Sands over the past five years has had a positive effect on Suncor's margins and has partially offset the impact of crude oil price volatility.

Because prices of crude oil and natural gas are based on a U.S. dollar benchmark, Suncor's earned prices are influenced by the Canadian/U.S. exchange rate. The year end weakness of the Canadian dollar versus the U.S. dollar ($0.70) and its subsequent further decline, while beneficial to the price received in Canadian dollars, adds another element of uncertainty.

Suncor cannot control the prices of crude oil or natural gas, or the exchange rate. However, the company has a hedging program that fixes the price of crude oil and natural gas and the associated foreign exchange for a percentage of Suncor's total production volume. Suncor locks in prices today that will result in a realized price in the future that exceeds pre-approved target prices.

Suncor's hedging program can extend for up to four calendar years into the future. Management and the Board of Directors regularly reassess Suncor's hedging thresholds in light of its price forecast and cash requirements. In early 1998, the Board of Directors approved new parameters for volumes, allowing for up to 30% of the current year's volumes and 30% for each of the following four years.

In 1997, crude oil, natural gas and foreign exchange hedging decreased Suncor's earnings by $36 million. In 1996 these same hedging activities resulted in an earnings decrease of $62 million, for a net year-over-year increase in earnings of $26 million.

Other critical factors affecting Suncor's current and future financial results are: volumes of refined product sales; margins on the sale of refined products; natural gas prices; the success of the exploration program; and the company's ability to manage costs.

Members of Suncor's Oil Sands Strategic Development Team *(left to right):* Coleen Huebner, Gerry Manwell, Joe Pok, Andrea Fortier

#1 Growth Priority

Suncor's first priority for long-term growth is to expand oil sands production. A plan is in place to increase production to 210,000 barrels per day in 2002 from the current level of 85,000 barrels per day. Suncor's commitment to this growth priority is demonstrated by the company's announced $2.2 billion planned Project Millennium expansion.

Year 2000 Millennium Change

Suncor has undertaken initiatives to assess the company's computer systems, equipment and process controls relative to the arrival of the year 2000. The use of computer systems, equipment and process controls that rely on 2 digit date and time data for computations and decision making functions may cause such systems, equipment and controls to malfunction in the year 2000 and possibly sooner. It has been generally recognized that the year 2000 issue will affect virtually all companies and organizations to some degree. At this time Suncor has no reason to believe adequate personnel will not be available internally and externally to remedy critical year 2000 issues in a timely manner.

Suncor has substantially completed an inventory of its systems, equipment and process controls which may be affected by 2 digit date and time data. The company has also recently updated many of its major systems to year 2000 compliant software and is in the process of updating the balance of its major computer systems to year 2000 compliant versions of such software. Suncor has an exposure relating to potential failure of non-year 2000 compliant critical process controls at its operating facilities and pipelines which could adversely affect the company's operations. The critical process controls which have been identified as non-year 2000 compliant, as well as those critical process controls which cannot be assessed for year 2000 compliance without significant disruptions in operations, have been targeted to be replaced during scheduled maintenance shutdowns. Suncor is also continuing with an inventory of year 2000 preparedness of its material third party interfaces, which include third party facilities to transport Suncor's petroleum and related products, as well as third party suppliers of power, steam and other utilities to the company's facilities. Due to the interdependent nature of computer systems and material third party interfaces, as well as potential shortages of resources, the company may be adversely impacted in the year 2000 depending upon whether it and other entities not affiliated with the company address the year 2000 issue successfully. The company is unable to estimate at this time the total future costs expected to be incurred which are associated with completion of its year 2000 compliance project, although costs associated with certain upgrades have already been incurred or included in budgets in the normal course of business.

Sensitivity Analysis

The sensitivity analysis (below) shows the main factors affecting Suncor's annual pre-tax cash flow from operations and after-tax earnings, based on actual levels of operation in 1997. It illustrates the potential financial impact of these factors on Suncor's 1997 financial results. A change in any one factor could compound or offset other factors. Because this table does not incorporate potential cross-relationships, it cannot necessarily predict accurate results.

Sensitivity Analysis

			Approximate change in	
($ millions)	1997 Average	Change	Pre-tax cash flow from operations	After-tax earnings
Oil Sands				
Price of crude oil ($/barrel)	**26.36**	U.S.$1.00	14	9
Sales (barrels per day)	**78 100**	1 000	9	6
Exploration and Production				
Price of crude oil ($/barrel)	**22.22**	U.S.$1.00	3	2
Price of natural gas ($/thousand cubic feet)	**1.93**	0.10	7	4
Production of natural gas (millions of cubic feet per day)	**240**	10	6	3
Sunoco				
Retail gasoline margin (cents/litre)	**6.8**	0.1	2	1
Refining/wholesale margin (cents/litre)	**4.6**	0.1	5	3
Consolidated				
Exchange rate: Cdn $: U.S. $	**0.72**	0.01	7	4

This sensitivity analysis excludes the impact of crown environmental credit of $31 million received in 1997, but not available in future years.

Environmental Regulation Risk/Success Factors
Environmental legislation affects nearly all aspects of Suncor's operations. These regulatory regimes are laws of general application that apply to Suncor in the same manner as they apply to other companies and enterprises in the energy industry. They require Suncor to obtain operating licenses, and they impose certain standards and controls on activities relating to mining, oil and gas exploration, development and production, and the refining, distribution and marketing of petroleum products and petrochemicals. Environmental assessments are required before initiating most new projects or undertaking significant changes to existing operations.

In addition to these specific, known requirements, Suncor expects further changes will likely be required to preserve and protect the environment and quality of life. Some of the issues under discussion include possible cumulative impacts of oil sands development in the Athabasca region; the need to reduce or stabilize various emissions, including greenhouse gases; land reclamation and restoration; Great Lakes water quality; and reformulated gasoline to support lower vehicle emissions. Changes in regulation could have a potentially adverse effect on product demand, product formulation and quality, and methods of production and distribution. For example, cleaner-burning fuels may be mandated, causing additional costs, which may or may not be recoverable in the marketplace. The complexity and breadth of these issues make it extremely difficult to predict their future impact on the company. Management anticipates increased capital expenditures and operating expenses as a result of the implementation of new and increasingly stringent environmental regulations.

Liquidity and Capital Resources
Suncor's growth initiatives have increased net debt from $190 million in 1994 to $796 million in 1997. Capital investments in the next four years are expected to exceed $4 billion compared with over $2 billion over the past four years.

Despite the expected growth in cash flow from operations in the next four-year period, internally generated cash is expected to be insufficient to support increased spending. And although the company's lines of credit have been increased to $600 million, additional sources of financing will be necessary to fund this level of growth.

To address this need for capital Suncor is arranging a $1.3 billion syndicated credit facility. These funds will be used to fund expansion-related capital expenditures at Oil Sands and other investments.

Suncor's long-term goal is to maintain debt of 1.5 times cash flow from operations. During the next four years, Suncor's debt/cash flow ratio is expected to climb from its current level of 1.4 times to a short-term peak of 2.0 to 2.5 times. Subject to the timely completion of its Project Millennium and other financial assumptions, management believes that anticipated increases in cash flow will reduce the debt/cash flow ratio to our long-term goal of 1.5x cash flow after the year 2001.

Management has the flexibility to adjust the levels and timing of capital expenditures both within and between years to manage the level of debt incurred to finance investments. These actions may be necessary depending upon factors such as commodity prices, production levels and margins. Higher debt levels for a sustained period create a risk that the company's credit rating could be lowered, a situation that would increase Suncor's borrowing costs.

For planning purposes, Suncor has assumed that crude oil prices will range from an average U.S. $19.50 to $20.50 per barrel over the next four years, and that natural gas prices will rise from the current average level of $1.93 per thousand cubic feet to an average $2.10 per thousand cubic feet. Suncor's plans also assume that foreign exchange rates for the Canadian dollar vs. the U.S. dollar are expected to strengthen from the 1997 average of $0.72 to $0.77 over the next four years.

During 1997, Suncor's quarterly dividend was $0.17 per share. Dividend levels are reviewed quarterly in light of Suncor's growth-related initiatives, financial position, financing requirements, cash flow and other factors considered relevant by the Board of Directors.

Capital and Exploration Investing Expenditures

($ millions)	1998 Goal	1997 Actual	1996 Actual
Oil Sands			
Sustaining capital	32	33	80
Environmental	13	9	80
Strategic			
Production improvements	44	69	35
Expansion	51	143	100
Steepbank	226	205	26
Project Millennium	170	32	–
	536	491	321
Exploration and Production			
Exploration	87	103	80
Acquisition	–	9	–
Development	120	95	86
Heavy oil	11	23	18
Environmental	2	2	1
Other	8	8	2
	228	240	187
Sunoco			
Refining and distribution	56	23	23
Retail marketing	34	23	13
Environmental	7	7	15
Other	1	1	4
	98	54	55
Corporate			
Stuart	145	61	–
Corporate	–	1	–
Total	1 007	847	563

Management's Statement on Financial Reporting

The financial statements on pages 32 to 50 which consolidate the financial results of Suncor Energy Inc., its subsidiaries and joint ventures, and all information in this annual report, are the responsibility of management. The financial statements and Management's Discussion and Analysis have been approved by the Board of Directors.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. They include some amounts which are based on estimates and judgments relating to matters not concluded by year-end. Financial information presented elsewhere in this annual report is consistent with that in the financial statements.

In management's opinion the financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized on pages 32 to 34. In meeting its responsibilities for the integrity of the financial statements, management maintains a system of internal controls and an internal audit program. Management also administers a program of proper business conduct compliance.

Coopers & Lybrand, the company's independent auditors, have audited the accompanying financial statements. Their report accompanies this statement.

The Audit Committee of the Board of Directors, composed entirely of independent directors, meets regularly with management, the internal auditors and Coopers & Lybrand to review their activities and to discuss auditing, internal control, accounting policy and financial reporting matters. The Audit Committee also meets quarterly to review interim financial statements prior to their release. The internal auditors and Coopers & Lybrand have unrestricted access to the company, the Audit Committee and the Board of Directors. The Audit Committee has reviewed the financial statements and Management's Discussion and Analysis and recommended their approval to the Board of Directors.

Richard L. George
President and
Chief Executive Officer

David W. Byler
Chief Financial Officer

February 25, 1998

Auditors' Report

To the Shareholders of Suncor Energy Inc.:

We have audited the consolidated balance sheets of Suncor Energy Inc. as at December 31, 1997, 1996 and 1995 and the consolidated statements of earnings and cash flows for each of the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997, 1996 and 1995 and the results of its operations and its cash flows for each of the years then ended in accordance with accounting principles generally accepted in Canada.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants
Calgary, Alberta

January 20, 1998

Summary of Significant Accounting Policies

Suncor Energy Inc. (formerly Suncor Inc.) is an integrated oil and gas company, whose three operating segments are Oil Sands, Exploration and Production, and Sunoco.

Oil Sands includes the production of light sweet and light sour crude oil, diesel fuel and various custom blends from oil sands mined in the Athabasca region of northeastern Alberta, and the marketing of these products in Canada and the United States.

Exploration and Production includes the exploration, acquisition, development, production, marketing and transportation of crude oil and natural gas in Canada and the marketing of natural gas throughout North America.

Sunoco includes the manufacture, transportation and marketing of petroleum and petrochemical products, primarily in Ontario and Quebec, and, commencing in 1997, the marketing of natural gas in Ontario. Petrochemical products are also sold in the United States and Europe.

The company is also in the development phase of an oil shale project in Queensland, Australia, which is currently being treated as a Corporate project for segmented reporting purposes. Commercial production from this first phase is expected to commence by the end of 1999, at which time the oil shale operation will be a separate foreign geographic segment.

The significant accounting policies of the company are summarized below:

(a) Principles of consolidation and the preparation of financial statements

These consolidated financial statements, which are prepared and reported in Canadian dollars, include the accounts of Suncor Energy Inc. and its subsidiaries and the company's proportionate share of the assets, liabilities, revenues, expenses and cash flows of its joint ventures.

The timely preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions, and use judgement, regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(b) Cash equivalents and investments

The company considers all highly liquid investments with a remaining maturity of three months or less at the time of purchase to be cash equivalents. These cash equivalents consist primarily of term deposits and certificates of deposit. Investments with maturities from greater than three months to one year are classified as short-term investments, while those with maturities in excess of one year are classified as long-term investments. Cash equivalents and short-term investments are stated at cost which approximates market value.

(c) Revenues

The company deems production from its oil sands plant, excluding diesel sales and synthetic crude oil sales under long-term agreements, as well as its conventional crude oil production to be used first for internal refinery consumption. The company also deems a portion of its natural gas production to be sold to Sunoco for resale to its natural gas customers. Therefore, on consolidation, revenues from these deemed sales are eliminated from sales and other operating revenues and purchases of crude oil and products.

The company also uses a portion of its natural gas production for internal consumption at its oil sands plant and refinery. On consolidation, revenues from these sales are eliminated from sales and other operating revenues and operating, selling and general expenses.

(d) Capital assets

Capital assets are recorded at cost less accumulated provisions for depreciation, depletion and amortization. Capital assets are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable from estimated future cash flows.

The company follows the successful efforts method of accounting for its crude oil and natural gas operations. Under the successful efforts method, acquisition costs of proved and unproved properties are capitalized. Costs of unproved properties are transferred to proved properties when proved reserves are confirmed. Exploration costs, including geological and geophysical costs, are expensed as incurred. Exploratory drilling costs are capitalized initially. If it is determined that the well does not contain proved reserves, the capitalized exploratory drilling costs are charged to expense, as dry hole costs, at that time. The related land costs are expensed through the amortization of unproved properties as covered under the Exploration and Production section of the following policy.

Development costs, which include the costs of wellhead equipment, gas plants and handling facilities, applicable geological and geophysical costs and the costs of acquiring or constructing support facilities and equipment are capitalized. Costs incurred to operate and maintain wells and equipment and to lift oil and gas to the surface are expensed.

Costs specifically related to the construction and development of major projects such as the oil sands projects and the Stuart oil shale project are capitalized. Depreciation commences when the facilities are substantially complete and ready for commercial production to begin.

(e) Depreciation, depletion and amortization

Oil Sands

Capital assets are depreciated over their useful lives, except for lease acquisition costs and certain mine assets, which are depreciated over the life of proved reserves. Depreciation over useful lives is on a straight line basis. Depreciation over the life of proved reserves is on a unit of production basis.

The company is depreciating capital assets as follows:

(i) mobile equipment over 3 to 15 years;

(ii) remaining mine equipment and acquisition costs of operating leases over approximately 107 million barrels of proved reserves;

(iii) other capital assets primarily over 10 to 30 years.

Exploration and Production

Unproved properties whose acquisition costs are individually significant are evaluated for impairment by management. Impairment of unproved properties whose acquisition costs are not individually significant is provided for through amortization of the portion not expected to become producing, based on historical experience, over the average projected holding period.

Acquisition costs of proved properties are depleted using the unit of production method based on proved reserves. Capitalized exploratory drilling costs and development costs are depleted on the basis of proved developed reserves. For purposes of the depletion calculation, production and reserves volumes for oil and natural gas are converted to a common unit of measure. Gas plants, support facilities and equipment are depreciated on a straight line basis over their useful lives, which average 15 years.

Sunoco

Depreciation of capital assets is on a straight line basis over their useful lives. The refinery and additions thereto are depreciated over an average of 32 years, service stations and related equipment over an average of 20 years and other facilities and equipment over 4 to 25 years.

(f) Disposals

Gains or losses on disposals of capital assets are generally recognized in earnings. For oil and gas capital assets, gains or losses are recognized in earnings for significant disposals or disposal of an entire property. However, the acquisition cost of an unproved property surrendered or abandoned which is not individually significant or a partial abandonment of a proved property is charged to accumulated depreciation, depletion or amortization, as appropriate.

(g) Deferred charges

Overburden removal costs incurred to expose oil sands for mining, including depreciation on overburden removal equipment, are deferred. These costs are amortized based on the amount of oil sands mined in the year, the ratio of total overburden to be removed to total reserves of oil sands to be mined and the removal cost, determined on a last-in, first-out (LIFO) basis, per unit of overburden.

The cost of major maintenance shutdowns is deferred and amortized on a straight line basis over the period to the next shutdown which varies from two to seven years. Normal maintenance and repair costs are charged to expense as incurred.

Oil sands preproduction costs are amortized on a unit of production basis over the life of proved producing reserves.

(h) Reclamation and environmental remediation costs

Reclamation and environmental remediation costs for identified sites are estimated and charged against earnings when there exists a regulatory or statutory requirement or contractual agreement, or when management has made a decision to decommission or restore a site, providing that assessments indicate that such costs are probable and reasonably estimable.

Estimated reclamation costs in the company's upstream operations are accrued on the unit of production basis. Estimated environmental remediation costs, which are predominantly in the company's downstream operation, are accrued for those sites where assessments indicate that such work is required.

Costs are accrued based upon currently known information, estimated timing of remedial actions, and existing requirements and technology. Changes in these factors may result in material changes to estimated costs, which will be recognized prospectively when known.

(i) Pension expense

The company has a defined benefit pension plan, under which employees do not make contributions (non-contributory), and a defined contribution pension plan providing retirement benefits for its eligible employees. The company also has supplementary non-contributory defined benefit pension plans providing additional retirement benefits for its executives and senior employees.

Pension expense related to the defined benefit plans includes the current service costs, interest costs and the amortization of adjustments arising from plan amendments, changes in assumptions and experience gains and losses over the expected average remaining service life of the employees. This expense reflects management's estimates of the pension plans' expected investment yield, salary escalation, mortality of members, terminations and the ages at which members will retire. Company contributions to the defined contribution plan are expensed as incurred.

(j) Other post-retirement benefits

The company provides certain health care and life insurance benefits for its retired employees and eligible surviving dependants. Costs of these benefits are charged to earnings as payments are made by the company on behalf of retirees and dependants.

(k) Income taxes

By law, some costs and revenues may be deducted from or added to earnings in the calculation of taxable income in years earlier or later than the year that they are actually recorded in the Consolidated Statements of Earnings. The income taxes in the Consolidated Statements of Earnings are based upon the revenues and expenses actually recorded but differ from taxes actually paid or payable. The cumulative effect of these differences is shown in the Consolidated Balance Sheets as "deferred income taxes".

(l) Inventories

Inventories of crude oil and refined products are valued at the lower of cost using the last-in, first-out (LIFO) method and net realizable value.

Materials and supplies are valued at the lower of average cost and net realizable value.

(m) Derivative financial instruments

The company periodically enters into derivative financial instrument contracts such as forwards, futures and swaps to hedge against the potential adverse impact of market prices for its petroleum and natural gas products and to protect its Canadian dollar income and cash flows against adverse foreign currency exchange movements. The company also periodically enters into derivative financial instrument contracts such as interest rate swaps when there is an opportunity to lower the cost of borrowed funds. The company does not use derivative financial instruments for trading or speculation, nor does it use derivative instruments involving multipliers or leverage.

Derivative contracts are initiated within the guidelines of the company's risk management policies, which require stringent authorities for approval and commitment of contracts, designation of the contracts by management as hedges of the related transactions, and monitoring of the effectiveness of such contracts in reducing the related risks. Contract maturities are consistent with the settlement dates of the related hedged transactions.

Derivative contracts accounted for as hedges are not recognized in the consolidated balance sheets. Gains or losses on these contracts are recognized in earnings and cash flows when the related sales revenue, interest expense and cash flows are recognized.

Gains or losses resulting from changes in the fair value of derivative contracts not accounted for as hedges would be recognized in earnings and cash flows if those changes should occur.

(n) Interest capitalization

Interest costs relating to the construction and pre-operating stages of major development projects and to the portion of non-producing oil and gas properties expected to become producing are capitalized as part of the cost of such capital assets.

(o) Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated to Canadian dollars at rates of exchange in effect at the end of the period. Other assets and related depreciation, depletion and amortization, other liabilities, revenues and expenses are translated at rates of exchange in effect at the respective translation dates. The resulting exchange gains and losses are included in earnings, except for unrealized exchange gains and losses arising on translation of long-term liabilities which are deferred and amortized over the remaining terms of the liabilities.

The foreign operation is integrated with the company's other activities and is translated in the manner described above.

Consolidated Statements of Earnings

for the years ended December 31

($ millions)	1997	1996	1995
REVENUES			
Sales and other operating revenues (notes 5 and 7)	**2 148**	2 097	1 898
Interest	**6**	3	3
	2 154	2 100	1 901
EXPENSES			
Purchases of crude oil and products (note 7)	**429**	424	361
Operating, selling and general	**705**	682	645
Exploration (note 5)	**50**	44	32
Royalties (note 4)	**80**	119	87
Taxes other than income taxes (note 5)	**312**	311	320
Depreciation, depletion and amortization	**234**	204	190
(Gain) loss on disposal of assets	**(9)**	(10)	6
Interest (note 5)	**13**	6	14
	1 814	1 780	1 655
EARNINGS BEFORE INCOME TAXES	**340**	320	246
PROVISION FOR INCOME TAXES (note 6)			
Current			
Income tax on earnings	**16**	18	54
Income tax refund	**(11)**	–	–
	5	18	54
Deferred	**112**	115	41
	117	133	95
NET EARNINGS	**223**	187	151
PER COMMON SHARE (dollars) (note 16)			
– net earnings	**2.04**	1.71	1.38
– cash dividends	**0.68**	0.64	0.57

See accompanying summary of accounting policies and notes.

Consolidated Balance Sheets

as at December 31

($ millions)	1997	1996	1995
ASSETS			
Current assets			
Cash and cash equivalents	13	1	2
Accounts receivable (notes 5 and 7)	267	292	246
Inventories (note 8)	159	147	163
Total current assets	439	440	411
Capital assets, net (notes 2 and 9)	2 817	2 209	1 855
Deferred charges and other (note 10)	201	175	174
Total assets	3 457	2 824	2 440
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings	36	24	35
Accounts payable	179	223	199
Accrued liabilities (notes 13 and 14)	229	206	140
Income taxes	10	–	36
Taxes other than income taxes	53	49	65
Current portion of long-term borrowings (note 11)	6	6	6
Total current liabilities	513	508	481
Long-term borrowings (notes 11 and 12)	767	395	253
Accrued liabilities and other (note 13)	166	183	198
Deferred income taxes	610	491	381
Commitments and contingencies (note 15)			
Shareholders' Equity			
Share capital (note 16)	513	508	505
Retained earnings			
At beginning of year	739	622	533
Net earnings for the year	223	187	151
Dividends	(74)	(70)	(62)
At end of year	888	739	622
Total shareholders' equity	1 401	1 247	1 127
Total liabilities and shareholders' equity	3 457	2 824	2 440

See accompanying summary of accounting policies and notes.

Approved on behalf of the Board:

R. L. George, Director A. S. Kingsmill, Director

Consolidated Statements of Cash Flows

for the years ended December 31

($ millions)	1997	1996	1995
OPERATING ACTIVITIES			
Cash flow provided from operations (note 1)(1),(2)	**575**	491	395
Decrease (increase) in operating working capital			
Accounts receivable	**25**	(46)	(29)
Inventories	**(12)**	16	1
Accounts payable and accrued liabilities	**(21)**	90	58
Taxes payable	**14**	(52)	(13)
Cash provided from operating activities	**581**	499	412
CASH USED IN INVESTING ACTIVITIES (note 1)(2)	**(884)**	(564)	(444)
NET CASH DEFICIENCY BEFORE FINANCING ACTIVITIES	**(303)**	(65)	(32)
FINANCING ACTIVITIES			
Increase (decrease) in short-term borrowings	**12**	(11)	4
Issuance of medium term notes	**400**	–	–
Repayment of 12% Debentures, Series A	**(5)**	(5)	(5)
Stuart oil shale project borrowings	**22**	–	–
Increase (decrease) in long-term borrowings under or with support of lines of credit	**(45)**	147	58
Issuance of common shares (note 16)	**5**	3	3
Dividends paid	**(74)**	(70)	(62)
Cash provided from (used in) financing activities	**315**	64	(2)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**12**	(1)	(34)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1**	2	36
CASH AND CASH EQUIVALENTS AT END OF YEAR	**13**	1	2
PER COMMON SHARE (dollars) (note 16)			
(1) Cash flow provided from operations	**5.24**	4.49	3.62

(2) See Schedules of Segmented Data on pages 40 and 41

See accompanying summary of accounting policies and notes.

Schedules of Segmented Data*

for the years ended December 31

($ millions)	Oil Sands 1997	Oil Sands 1996	Oil Sands 1995	Exploration and Production 1997	Exploration and Production 1996	Exploration and Production 1995	Sunoco 1997	Sunoco 1996	Sunoco 1995
EARNINGS									
Revenues									
Sales and other operating revenues	**281**	291	290	**194**	168	92	**1 673**	1 638	1 516
Intersegment revenues **	**470**	475	386	**108**	96	99	–	–	–
Interest	–	–	–	–	–	–	–	–	–
	751	766	676	**302**	264	191	**1 673**	1 638	1 516
Expenses									
Purchases of crude oil and products	–	–	–	–	–	–	**988**	981	836
Operating, selling and general	**334**	326	301	**87**	74	62	**269**	257	265
Exploration	–	–	–	**50**	44	32	–	–	–
Royalties	**31**	77	63	**49**	42	24	–	–	–
Taxes other than income taxes	**8**	6	6	**4**	3	4	**300**	302	310
Depreciation, depletion and amortization	**109**	95	91	**74**	63	53	**51**	45	46
(Gain) loss on disposal of assets	**(2)**	(3)	7	**(9)**	(7)	(2)	**2**	–	1
Interest	–	–	–	–	–	–	–	–	–
	480	501	468	**255**	219	173	**1 610**	1 585	1 458
Earnings (loss) before income taxes	**271**	265	208	**47**	45	18	**63**	53	58
Income taxes	**(92)**	(101)	(78)	**(23)**	(23)	(8)	**(24)**	(21)	(22)
Net earnings (loss)	**179**	164	130	**24**	22	10	**39**	32	36
As at Dec 31									
TOTAL ASSETS	**1 689**	1 246	959	**819**	719	614	**908**	915	904
CAPITAL EMPLOYED ***	**1 081**	699	497	**658**	583	525	**500**	477	448
RETURN ON AVERAGE CAPITAL EMPLOYED (%) ***	**20.1**	27.4	27.7	**4.0**	4.0	2.1	**7.9**	6.9	8.2

* The company currently has no foreign geographic segments. See note 5 for information on export sales. Accounting policies for segments are the same as those described in the Summary of Significant Accounting Policies.

** Intersegment revenues are recorded at prevailing fair market prices and accounted for as if the sales were to third parties.

*** The definition of Capital Employed has been changed retroactively to the total of shareholders' equity and debt (short-term borrowings and current and long-term portions of long-term borrowings). Long-term borrowings are recorded mainly in the Corporate segment. Total Capital Employed and Return on Average Capital Employed for 1997 under the previous definition would be $2 944 million and 8.8%, respectively.

See accompanying summary of accounting policies and notes.

($ millions)	Corporate and Eliminations			Total		
	1997	1996	1995	**1997**	1996	1995
EARNINGS						
Revenues						
Sales and other operating revenues	**–**	–	–	**2 148**	2 097	1 898
Intersegment revenues **	**(578)**	(571)	(485)	**–**	–	–
Interest	**6**	3	3	**6**	3	3
	(572)	(568)	(482)	**2 154**	2 100	1 901
Expenses						
Purchases of crude oil and products	**(559)**	(557)	(475)	**429**	424	361
Operating, selling and general	**15**	25	17	**705**	682	645
Exploration	**–**	–	–	**50**	44	32
Royalties	**–**	–	–	**80**	119	87
Taxes other than income taxes	**–**	–	–	**312**	311	320
Depreciation, depletion and amortization	**–**	1	–	**234**	204	190
(Gain) loss on disposal of assets	**–**	–	–	**(9)**	(10)	6
Interest	**13**	6	14	**13**	6	14
	(531)	(525)	(444)	**1 814**	1 780	1 655
Earnings (loss) before income taxes	**(41)**	(43)	(38)	**340**	320	246
Income taxes	**22**	12	13	**(117)**	(133)	(95)
Net earnings (loss)	**(19)**	(31)	(25)	**223**	187	151
As at Dec 31						
TOTAL ASSETS	**41**	(56)	(37)	**3 457**	2 824	2 440
CAPITAL EMPLOYED ***	**(29)**	(87)	(49)	**2 210**	1 672	1 421
RETURN ON AVERAGE CAPITAL EMPLOYED (%) ***	**–**	–	–	**11.9**	12.3	11.8

Schedules of Segmented Data*

for the years ended December 31

($ millions)	Oil Sands 1997	Oil Sands 1996	Oil Sands 1995	Exploration and Production 1997	Exploration and Production 1996	Exploration and Production 1995	Sunoco 1997	Sunoco 1996	Sunoco 1995
CASH FLOW BEFORE FINANCING ACTIVITIES									
Cash provided from (used in) operating activities:									
Cash flow provided from (used in) operations									
Net earnings (loss)	**179**	164	130	**24**	22	10	**39**	32	36
Exploration expenses									
Cash	**–**	–	–	**25**	18	16	**–**	–	–
Dry hole costs	**–**	–	–	**25**	26	16	**–**	–	–
Non-cash items included in earnings									
Depreciation, depletion and amortization	**109**	95	91	**74**	63	53	**51**	45	46
Deferred income taxes	**85**	56	2	**10**	22	10	**5**	(4)	–
Current income tax allocation to Corporate	**7**	45	75	**13**	–	(2)	**19**	26	23
Other	**(11)**	(13)	3	**(9)**	(6)	(2)	**(3)**	(7)	(2)
Overburden removal outlays	**(34)**	(26)	(20)	**–**	–	–	**–**	–	–
Increase (decrease) in deferred credits and other	**(4)**	(3)	(3)	**–**	1	2	**10**	(2)	3
Total cash flow provided from (used in) operations	**331**	318	278	**162**	146	103	**121**	90	106
Decrease (increase) in operating working capital	**33**	29	20	**(2)**	(5)	–	**(36)**	5	4
Total cash provided from (used in) operating activities	**364**	347	298	**160**	141	103	**85**	95	110
Cash used in investing activities:									
Capital and exploration expenditures	**(491)**	(321)	(193)	**(240)**	(187)	(201)	**(54)**	(55)	(38)
Deferred maintenance shutdown expenditures	**(36)**	(4)	–	**1**	(3)	(3)	**–**	(13)	(9)
Deferred outlays and other investments	**(6)**	–	–	**–**	1	1	**(1)**	(10)	(2)
Proceeds from disposals	**2**	15	1	**13**	10	3	**–**	3	1
Total cash used in investing activities	**(531)**	(310)	(192)	**(226)**	(179)	(200)	**(55)**	(75)	(48)
Net cash surplus (deficiency) before financing activities	**(167)**	37	106	**(66)**	(38)	(97)	**30**	20	62

* The company currently has no foreign geographic segments. See note 5 for information on export sales.
Accounting policies for segments are the same as those described in the Summary of Significant Accounting Policies.

See accompanying summary of accounting policies and notes.

($ millions)	Corporate and Eliminations 1997	1996	1995	Total 1997	1996	1995
CASH FLOW BEFORE FINANCING ACTIVITIES						
Cash provided from (used in) operating activities:						
Cash flow provided from (used in) operations						
Net earnings (loss)	**(19)**	(31)	(25)	**223**	187	151
Exploration expenses						
Cash	**–**	–	–	**25**	18	16
Dry hole costs	**–**	–	–	**25**	26	16
Non-cash items included in earnings						
Depreciation, depletion and amortization	**–**	1	–	**234**	204	190
Deferred income taxes	**12**	41	29	**112**	115	41
Current income tax allocation to Corporate	**(39)**	(71)	(96)	**–**	–	–
Other	**2**	1	2	**(21)**	(25)	1
Overburden removal outlays	**–**	–	–	**(34)**	(26)	(20)
Increase (decrease) in deferred credits and other	**5**	(4)	(2)	**11**	(8)	–
Total cash flow provided from (used in) operations	**(39)**	(63)	(92)	**575**	491	395
Decrease (increase) in operating working capital	**11**	(21)	(7)	**6**	8	17
Total cash provided from (used in) operating activities	**(28)**	(84)	(99)	**581**	499	412
Cash used in investing activities:						
Capital and exploration expenditures	**(62)**	–	(4)	**(847)**	(563)	(436)
Deferred maintenance shutdown expenditures	**–**	–	–	**(35)**	(20)	(12)
Deferred outlays and other investments	**(10)**	–	–	**(17)**	(9)	(1)
Proceeds from disposals	**–**	–	–	**15**	28	5
Total cash used in investing activities	**(72)**	–	(4)	**(884)**	(564)	(444)
Net cash surplus (deficiency) before financing activities	**(100)**	(84)	(103)	**(303)**	(65)	(32)

Notes to the Consolidated Financial Statements

1. CASH FLOW PRESENTATION

Effective January 1, 1997, deferred maintenance shutdown expenditures and other deferred outlays have been reclassified in the Statements of Cash Flows and Schedules of Segmented Data from operating activities to investing activities. This portrayal reflects the long-term nature of these expenditures which, like capital expenditures, are charged against earnings over the future periods benefitted. Comparative figures for prior periods have also been reclassified to conform with this presentation. The impact of the reclassification is to increase Cash flow provided from operations and Cash used in investing activities by $48 million (1996 – $25 million; 1995 – $13 million), and Cash flow provided from operations per common share by $0.44 (1996 – $0.23; 1995 – $0.12).

2. EXCHANGE OF ASSETS WITH ULTRAMAR

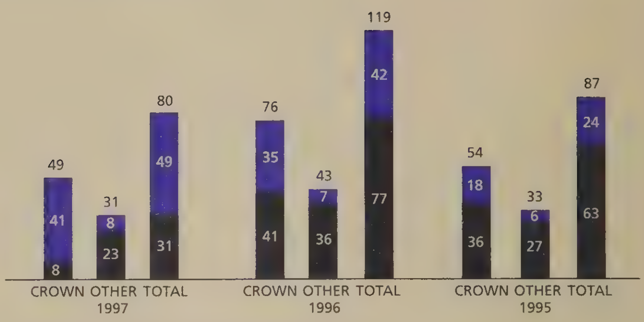
During 1996, the company transferred ownership of 127 Sunoco service stations in Quebec to Ultramar Canada Inc. in exchange for 88 service stations in Ontario and Ultramar's 50 percent share in its Ontario distribution terminal joint venture with Suncor Energy. This asset exchange places most of the company's retail business in Ontario where greater efficiencies and profitability can be achieved through lower overhead and distribution costs. Assets exchanged were recorded at their carrying values. This transaction had no effect on either the financial position of the company at December 31, 1996 or the net earnings for the year ended December 31, 1996.

3. OFFICE RELOCATION

During 1995, the company relocated its corporate office to Calgary from Toronto. As a result, costs associated with office and employee relocation and employee terminations were incurred. The impact during 1995 was a charge to expense of $7 million resulting in a decrease in net earnings of $4 million ($0.04 per common share) after income tax credits of $3 million.

4. ROYALTIES

($ millions)



Alberta Crown royalties totalling $9 million (1996 and 1995 – $11 million) were paid in kind, and are not shown in the company's revenues and expenses.

5. SUPPLEMENTAL INFORMATION

($ millions)	1997	1996	1995
Export sales (1)	292	254	219
Exploration expenses			
Geological and geophysical	23	16	15
Other	2	2	1
Cash costs	25	18	16
Dry hole costs	25	26	16
Cash and dry hole costs (2)	50	44	32
Leasehold impairment (3)	7	5	7
	57	49	39
Taxes other than income taxes			
Excise taxes (4)	292	293	300
Production, property and other taxes	20	18	20
	312	311	320
Interest expense			
Long-term interest cost	38	25	24
Less interest capitalized	(25)	(19)	(10)
	13	6	14
Cash interest payments	28	26	24
Allowance for doubtful accounts	3	9	9

(1) Sales of mainly petrochemicals, natural gas and diesel to customers in the United States and petrochemicals in Europe.
(2) Exploration expenses in the Consolidated Statements of Earnings.
(3) Included in depreciation, depletion and amortization in the Consolidated Statements of Earnings.
(4) Excise taxes are included in sales and other operating revenues in the Consolidated Statements of Earnings.

6. INCOME TAXES

The provision for income taxes reflects an effective tax rate which differs from the statutory tax rate. A reconciliation of the two rates and the dollar effect is as follows:

	1997		1996		1995	
($ millions)	Amount	%	Amount	%	Amount	%
Federal tax rate	130	38	122	38	93	38
Provincial abatement	(34)	(10)	(32)	(10)	(25)	(10)
Federal surtax	4	1	3	1	3	1
Provincial tax rates	53	16	48	15	38	15
Statutory tax and rate	153	45	141	44	109	44
Add (deduct) the tax effect of:						
Crown royalties	27	8	40	12	29	12
Resource allowance	(54)	(16)	(54)	(17)	(41)	(16)
Large corporations tax	5	1	4	1	3	1
Income tax refund*	(11)	(3)	–	–	–	–
Other	(3)	(1)	2	1	(5)	(2)
Income taxes and effective rate	117	34	133	41	95	39

1997 income tax cash refunds, net of payments, totalled $10 million (1996 and 1995 – net payments of $54 million and $63 million, respectively).

* During 1997, an agreement was reached with Revenue Canada on a number of issues for an income tax refund of $11 million, including related taxable interest of $1 million. This refund pertains to the years 1983 to 1992. The impact of the refund is to increase 1997 net earnings by $11 million ($0.10 per common share).

7. RELATED PARTY TRANSACTIONS

The following table summarizes the company's related party transactions for the year and balances at the end of the year. These transactions are in the normal course of operations and have been carried out on the same terms as would apply with unrelated parties.

($ millions)	1997	1996	1995
Revenues			
Sales to Sunoco joint ventures:			
Refined products	353	344	266
Petrochemicals	90	109	137
Sales to Sun Company, Inc. (Sun):			
Crude oil	N/A	N/A	21
Expenses			
Purchases of feedstock from Sun	N/A	N/A	12
At the end of the year, amounts due from related parties are as follows:			
Sunoco joint ventures	49	48	50

Joint Ventures

Sales to and balances with Sunoco joint ventures are exchange amounts established and agreed to by the related parties, before application of the proportionate consolidation method of accounting.

The company has exclusive supply agreements with two Sunoco joint ventures for the sale of refined products. One agreement expires in 2002, after which the company will continue to be the exclusive supplier of refined products as long as it remains a shareholder. The company plans to maintain its relationship with this joint venture. The other agreement expires in 2003 and will be automatically renewed thereafter for one year terms until terminated by either party upon twelve months prior written notice.

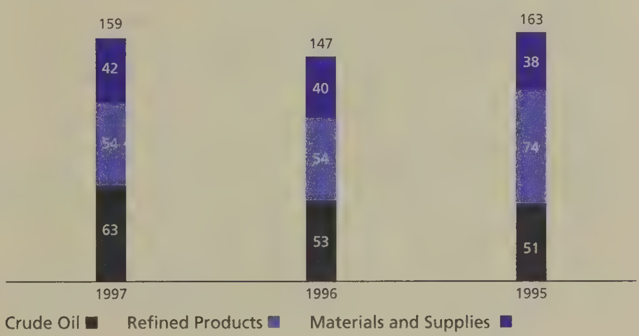
The company also has a non-exclusive supply agreement with a Sunoco joint venture for the sale of petrochemicals. The initial term of this agreement ended in December 1997. It is, however, continuing on an annual basis, unless it is terminated by either party upon twelve months written notice. No notice has been given by either party.

Sun Company, Inc.

1995 related party transactions with Sun were for the period January to May 1995, during which Sun was the company's major shareholder.

8. INVENTORIES

($ millions)



9. CAPITAL ASSETS

($ millions)	1997 Cost	1997 Accumulated Provision	1996 Cost	1996 Accumulated Provision	1995 Cost	1995 Accumulated Provision
Oil Sands						
Plant	1 106	410	1 029	386	786	389
Mine and mobile equipment	330	158	304	126	281	117
Sulphur dioxide reduction project*	–	–	–	–	126	–
Plant expansion**	267	–	124	–	24	–
Steepbank mine**	238	–	33	–	7	–
Project Millennium**						
Production Enhancement Phase	17	–	–	–	–	–
Other	16	–	–	–	–	–
	1 974	568	1 490	512	1 224	506
Exploration and Production***						
Proved properties	1 093	450	961	386	841	336
Unproved properties	263	166	217	163	206	161
Pipeline	21	17	21	17	22	17
Other support facilities and equipment	15	9	13	8	11	7
	1 392	642	1 212	574	1 080	521
Sunoco						
Refinery including petrochemicals	701	304	683	282	660	264
Marketing and transportation	337	137	321	132	322	144
	1 038	441	1 004	414	982	408
Corporate						
Stuart oil shale project**	61	–	–	–	–	–
Other	5	2	4	1	4	–
	66	2	4	1	4	–
	4 470	1 653	3 710	1 501	3 290	1 435
Net capital assets		2 817		2 209		1 855

Interest capitalized during 1997 totalled $25 million (1996 – $19 million; 1995 – $10 million).

* In October, 1996, the sulphur dioxide reduction plant was put into service and its costs transferred to Plant assets. The amortization of these costs commenced in November, 1996.
** The amortization of costs related to these major projects will begin as the facilities are phased into service.
*** Prior periods have been reclassified to conform with the current presentation.

10. DEFERRED CHARGES AND OTHER

($ millions)	1997	1996	1995
Oil sands overburden removal costs (see below)	86	80	84
Oil sands preproduction costs	11	14	17
Deferred maintenance shutdown costs	52	35	33
Investments*	8	4	–
Other	44	42	40
	201	175	174
Oil sands overburden removal costs			
Balance – beginning of year	80	84	96
Outlays during year	34	26	20
Depreciation on equipment during year	3	2	2
	117	112	118
Amortization during year	(31)	(32)	(34)
Balance – end of year	86	80	84

* Includes investments in Central Pacific Minerals NL (CPM) and Southern Pacific Petroleum NL (SPP) in 1997 totalling $4 million. These investments are accounted for on the cost basis. They convey to the company a right, but not an obligation, to acquire 18 850 000 and 57 000 000 Restricted Class Shares of CPM and SPP, respectively, for an additional investment of approximately $67 million, and therefore represent a partial payment of these shares. The market value of these shares at December 31, 1997, based on quoted market prices, is approximately $245 million.

As stipulated in the agreement, the company can exercise its right to purchase these shares within six calendar months following the date of practical completion of the Stuart oil shale demonstration plant and the successful completion of performance tests. Ownership of these shares would represent approximately a 15% interest in CPM and SPP. If the right is not exercised, the partial payments would be forfeited and the $4 million charged to expense.

11. LONG-TERM BORROWINGS

($ millions)	1997	1996	1995
Medium Term Notes, maturing in 2007. Interest payable semi-annually.*	400	–	–
7.4% Debentures, Series C, maturing in 2004. Redeemable at any time, at the company's option.**	125	125	125
12% Debentures, Series A, maturing in 2003. Repayable at the rate of $5 million annually, redeemable at any time, at the company's option.	55	60	65
Borrowings with interest at variable rates averaging 4.3% at December 31, 1997 (1996 – 3.5%; 1995 – 6.3%) under or with support of lines of credit.	165	207	58
Stuart oil shale project borrowings with interest at 7.75%. Australian $23 million. Principal and interest repayable from project net cash flows.	22	–	–
Sunoco joint venture borrowings with interest at rates averaging 7.2% at December 31, 1997. (1996 – 8.3%; 1995 – 8.8%)	6	9	11
	773	401	259
Less current portion of long-term borrowings	6	6	6
	767	395	253

* During 1997, the company issued $400 million of medium term notes, $250 million in the first quarter at an interest rate of 6.8%, and $150 million in the third quarter at an interest rate of 6.1%. The money received was used to repay short term promissory notes and borrowings under the company's lines of credit.

** In February 1996, the company entered into a cross-currency interest rate swap transaction to convert its 7.4% Debentures to a 6.2% fixed interest rate U.S. dollar obligation of approximately $91 million. In November 1996, the company entered into another cross-currency interest rate swap transaction to convert the U.S.$91 million obligation back to a fixed rate Canadian $125 million obligation. Both contracts will remain in place for the term of the debenture. The net effect of the two swap transactions is to reduce the effective interest rate on the debentures from 7.3% (7.4% coupon rate) to 5.5%. The principal obligation remains unchanged. The average effective interest rate on the debentures in 1996 was 6.2%. The use of the two swap transactions reduced interest expense by approximately $1 million in both 1997 and 1996.

Principal repayments of long-term borrowings in each of the next five years are as follows:

($ millions)	
1998	6
1999	6
2000	6
2001	7
2002	221

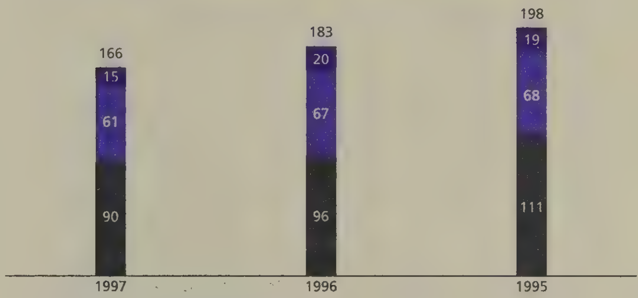
The company intends to exercise its option to redeem, and replace with lower cost financing, the 12% Debentures, Series A in 1998, given the current and projected interest rate environment. At that time, a limitation against redeeming these bonds with lower cost financing will have expired.

12. LINES OF CREDIT

The company has lines of credit with financial institutions totalling $635 million. $600 million of these lines of credit are committed to the year 2002 and are subject to commitment fees, the amounts of which are not material. The remaining $35 million are uncommitted and therefore cancellable at any time at the option of the financial institutions. Available borrowings under or with support of these lines of credit at December 31, 1997 are $470 million.

13. ACCRUED LIABILITIES AND OTHER

($ millions)



Reclamation and environmental remediation costs (a) ■
Pension costs (see note 14) ■ Other (b) ■

(a) Reclamation and environmental remediation costs
Total accrued reclamation and environmental remediation costs also include $13 million in current liabilities (1996 – $16 million; 1995 – $11 million). Payments during 1997 totalled $18 million (1996 – $23 million; 1995 – $13 million).

During 1997, the company completed a study to assess the economic benefits of new tailings reclamation technology and other opportunities at its oil sands operation. Based on the findings of the study, and subject to any future adjustments resulting from further technology and cost changes, the company reduced the total oil sands reclamation cost estimate for the current mine from $180 million to $140 million, $51 million of which has been spent to date for reclamation work already carried out. Since this revised estimate of $140 million approximates the total reclamation costs accrued to December 31, 1997, the provision for reclamation costs in the foreseeable future will reflect only the impact of inflation. Oil sands reclamation costs recorded in 1997 totalled $3 million (1996 – $10 million; 1995 – $7 million).

A review in 1996 resulted in an increase in the exploration and production segment's reclamation and environmental remediation cost estimate from $22 million to $58 million. This estimate was adjusted in 1997 to $61 million, of which $17 million has been accrued to December 31, 1997. The remaining $44 million will be accrued over future years on a unit of production basis.

(b) Employee incentive plans

In 1997, the company established the following long-term employee incentive plans.

The Special Performance Incentive Plan (SPIP) provides awards of Special Performance Units ("SPU") for senior executives of the company. These awards, granted on April 1, 1997, will vest on April 1, 2002. The number of SPU that will vest at that date is based on the value at April 1, 2002, assuming reinvestment of dividends, of a notional $100 investment in common shares of the company at the grant date. A maximum number will vest if the value of the notional investment doubles to $200. No SPU will vest if the value of the notional investment is $150 or lower. Vested SPU entitle the holder to receive either an equivalent number of common shares of the company, half the value of which will be paid in cash and the other half in common shares purchased by the company in the open market, or an equivalent number of Deferred Share Units ("DSU"). Executives electing to receive DSU will be required to hold them as long as they remain with the company, and will receive additional DSU equivalent in value to future notional dividend reinvestments. Upon the retirement, death or employment termination of the holder, DSU will be paid in cash, based on the value of an equivalent number of common shares of the company.

The Incremental Value Payout Program (IVPP) component of the Employee Long Term Incentive Plan (ELTIP) provides incentive awards, payable on April 1, 2002, mainly to those employees of the company that are not eligible for SPIP or the Employee Stock Option Program component of the ELTIP [see note 16(b)]. One half of the award is based on the average market price of the company's common shares during the 12 weeks prior to April 1, 2002. The other half of the award is based on achievement of certain performance measurement criteria relating to the company's business segments. No award is payable if the market price of the company's common shares is lower than $54. The awards will be paid in equal amounts of cash and common shares of the company.

Estimated costs of the SPIP and IVPP will be recognized in accrued liabilities and other over the period to April 1, 2002 based on share price and expected performance achievement. The impact of the SPIP plan in 1997 was a charge to expense of $2 million, resulting in a decrease in net earnings of $1 million ($0.01 per common share) after income tax credits of $1 million. The IVPP had no impact on 1997 earnings.

14. PENSION COSTS AND OBLIGATIONS

The company's pension plans include defined benefit plans under which employees do not make contributions, and which provide a pension benefit at retirement based upon years of service and final average earnings.

The company also has a defined contribution plan, under which both the company and employees make contributions. Company contributions are based on employees' earnings and contributions.

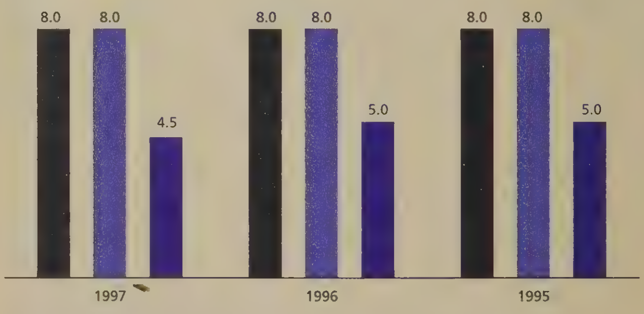
Defined Benefit Pension Plans

These pension plans consist of a funded plan which covers most employees, and unfunded supplementary benefit plans which primarily provide supplemental retirement benefits to executives and senior employees. Under the funded plan, the company ensures that funds are available to cover pension payment obligations to retired employees by making contributions to an independent trustee. The trustee acts as the depository for contributions, the disbursing agent and custodian of the pension plan's assets. These assets are managed by a pension fund investment committee of executives through independent investment managers. Pension plan assets are not the company's assets and therefore are not included in the Consolidated Balance Sheets.

Company contributions to the funded pension plan as well as the present value of pension benefit obligations and current period pension expense are determined by an independent actuary based on the following actuarial assumptions and management's estimates, and in accordance with regulatory requirements.

Assumptions and estimates

(percentages)



The following funded status table identifies the present value of the net unfunded obligation, which is the amount by which pension plan obligations exceed the market value of plan assets available to satisfy these obligations at December 31:

($ millions)	**1997**	1996	1995
Pension benefit obligations:			
Funded plan	**247**	226	216
Unfunded supplementary plans	**40**	49	43
Total obligations	**287**	275	259
Less market value of plan assets*	**250**	223	196
Net unfunded obligation	**37**	52	63

* Assets in the company's pension plan consist principally of marketable equity securities, government and corporate bonds and short-term notes.

The net unfunded obligation is reflected as a liability in the company's balance sheet before recognition of the unamortized asset determined at January 1, 1987, the transition date, and other unamortized plan gains and losses, which represent annually calculated differences between actual and projected plan performance. These actuarial charges/credits to earnings, which are already reflected in the net unfunded obligation, are recorded over the expected average remaining service life of employees, which is currently 13 years (1996 and 1995 – 16 years).

($ millions)	1997	1996	1995
Pension liability*	69	78	79
Unamortized transitional asset	(26)	(33)	(36)
Unamortized net (gain) loss	(6)	7	20
Net unfunded obligation	37	52	63
* Current portion	8	11	11
Long term portion	61	67	68
	69	78	79
Pension expense	6	11	14
Company contributions to funded plan	13	10	11

Defined Contribution Pension Plan

($ millions)	1997	1996	1995
Company expense contributions	3	3	3

15. COMMITMENTS AND CONTINGENCIES

(a) Operating commitments

The company has non-cancellable operating commitments for pipeline capacity, service stations, office space and other property and equipment. Under contracts existing at December 31, 1997, future minimum annual payments are as follows:

($ millions)	Pipeline capacity	Other
1998	29	24
1999	15	22
2000	14	19
2001	14	16
2002	13	11
Later years	160	43
	245	135

(b) Capital expenditure commitments

The total maximum commitment to fund the first phase of the Stuart oil shale project is estimated to be $225 million. The company's portion of this commitment is approximately $200 million of which a maximum of $80 million is funded by way of limited recourse project financing from its joint venture partners. Because of the developmental nature of the project and the inherent risks associated with the use of the new technology, the success of the project is not assured. If the project is unsuccessful, costs incurred would be written off, resulting in a reduction of earnings.

(c) Contingencies

The company is subject to various regulatory and statutory requirements relating to the protection of the environment. These requirements, in addition to contractual agreements and management decisions, result in the accrual of estimated reclamation and environmental remediation costs. These costs are accrued at the company's exploration and production and oil sands operations on the unit of production basis. Estimated environmental remediation costs at service stations are also accrued upon completion of site investigations. These costs are reduced by any estimated gains likely to be realized on a sale of these sites. Any changes in these estimates will affect future earnings.

Under the company's business interruption insurance coverage, the company would bear the first $100 million of any loss arising from a future insured incident at its oil sands operations.

The company is defendant and plaintiff in a number of legal actions that arise in the normal course of business.

Costs attributable to these commitments and contingencies are expected to be incurred over an extended period of time and to be funded mainly from the company's cash provided from operating activities. Although the ultimate impact of these matters on net earnings cannot be determined at this time, it could be material for any one quarter or year. The company believes that any liabilities which might arise pertaining to such matters would not be expected to have a material effect on the company's consolidated financial position.

16. SHARE CAPITAL

(a) Authorized:

Common shares

The company is authorized to issue an unlimited number of common shares without nominal or par value.

Preferred shares

The company is authorized to issue an unlimited number of preferred shares without nominal or par value in series. Shares of one series, Preferred Shares Series A, were issued and cancelled in prior years.

(b) Issued:

The number of common shares and common share options outstanding, common share prices and per share calculations, for both current and prior periods, reflect a two-for-one split of the company's common shares during 1997.

($ millions)	Common Shares Number	Amount
Balance as at December 31, 1994	109 044 288	502
Issued for cash under stock option plan	322 126	3
Balance as at December 31, 1995	109 366 414	505
Issued for cash under stock option plan	207 258	3
Balance as at December 31, 1996	109 573 672	508
Issued for cash under stock option plan	326 138	5
Issued under dividend reinvestment plan	6 823	–
Balance as at December 31, 1997	109 906 633	513

Common Share Options

a) Executive Stock Plan

Under this plan, the company has granted common share options to non-employee directors and certain executives of the company and its subsidiaries. The exercise price of an option is equal to the market value of the common shares at the date of grant. Options granted to non-employee directors are exercisable immediately. Options granted to employees are exercisable as follows; 1/3 after one year, the second 1/3 after two years and the final 1/3 after three years of the grant date. No option may be exercisable more than ten years after the grant date.

b) Employee Stock Option Program

Under this component of the ELTIP, the company has granted 584 450 common share options to certain executives and senior employees. The exercise price of $52.15 is equal to the market value of the common shares at the grant date. Options are exercisable on April 1, 2002, one half on a time basis and the other half based on the achievement of certain performance measurement criteria.

The following tables cover common share options granted by the company:

(dollars)	Number	Exercise price per share Range	Weighted Average
Outstanding, December 31, 1994	1 117 878	9.50-15.66	11.78
Granted	599 918	16.44-20.88	16.74
Exercised	(322 126)	9.50-16.44	10.69
Cancelled	(886)	9.50	9.50
Outstanding, December 31, 1995	1 394 784	9.50-20.88	14.17
Granted	664 450	20.97-25.60	21.80
Exercised	(207 258)	9.50-16.44	12.61
Cancelled	(73 508)	9.50-21.10	18.36
Outstanding, December 31, 1996	1 778 468	9.50-25.60	17.03
Granted	1 181 570	31.07-52.15	41.72
Exercised	(326 138)	9.50-21.09	13.77
Cancelled	(35 609)	16.44-31.07	25.64
Outstanding, December 31, 1997	2 598 291	9.50-52.15	28.54

(dollars)	Number	Exercise price per share Range	Weighted Average
Exercisable, December 31			
1995	541 204	9.50-20.88	12.35
1996	809 332	9.50-21.93	13.87
1997	923 543	9.50-31.38	16.58

Available for Grant

(number of common shares)

The exercise of options outstanding as at December 31, 1997, would not have a materially dilutive effect on net earnings per share.

17. FINANCIAL INSTRUMENTS

(a) Balance sheet financial instruments

The company's financial instruments recognized in the consolidated balance sheets consist of cash, accounts receivable, investments in CPM and SPP, substantially all current liabilities and long-term borrowings.

The estimated fair values of recognized financial instruments have been determined based on the company's assessment of available market information and appropriate valuation methodologies; however, these estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction.

The following table summarizes estimated fair value information about the company's long-term borrowings at December 31:

($ millions)	1997 Carrying amount	1997 Fair value	1996 Carrying amount	1996 Fair value	1995 Carrying amount	1995 Fair value
Long-term borrowings						
– fixed rate	575	595	180	193	185	189
– variable rate	165	165	207	207	58	58
– Sunoco joint ventures	5	5	8	8	10	10
– Stuart oil shale project	22	22	–	–	–	–

The fair value of the company's fixed rate long-term borrowings, which are publicly traded, is based on quoted market prices. The fair value of the company's variable-rate long-term borrowings, proportionate share of the long-term borrowings of its Sunoco joint ventures, and the Stuart oil shale project borrowings approximates the carrying amount.

The fair values of cash, accounts receivable and current liabilities approximate their carrying amounts due to the short-term maturity of these instruments.

The fair value of the company's investment in the shares of CPM and SPP is not determinable. Information about the terms, conditions and characteristics of these investments are presented in Note 10.

(b) Derivative financial instruments

The company is a party to certain derivative financial instruments which are not recognized in the consolidated balance sheets, as follows:

Revenue hedges

The company enters into crude oil, natural gas and foreign currency swap contracts to protect its future Canadian dollar earnings and cash flows from the potential adverse impact of low petroleum and natural gas prices and an unfavourable U.S./Canadian dollar exchange rate. The swap contracts reduce fluctuations in sales revenues by locking in fixed prices and exchange rates on a portion of its sales.

The swap contracts do not require the payment of premiums or cash margin deposits prior to settlement. On settlement, these contracts result in cash receipts (payments) by the company for the difference between the contract and market rates for the applicable dollars and volumes hedged during the contract term. Such cash receipts (payments) offset corresponding decreases (increases) in the company's sales revenues. For accounting purposes, amounts received (paid) on settlement are recorded as part of the related hedged sales transactions.

Contracts outstanding were as follows:

Interest rate hedges

The company enters into cross-currency interest rate swap contracts when there is an opportunity to lower the cost of borrowed funds. The contracts involve an exchange of Canadian dollar interest payments and U.S. dollar interest payments between the company and a financial institution, and an exchange of Canadian and U.S. dollar principal amounts at the maturity date of the underlying borrowing to which the swaps relate. The swap transactions are completely independent from and have no direct effect on the relationship between the company and its lenders. The differentials on the exchange of periodic interest payments are recognized in the accounts as an adjustment to interest expense.

The notional amounts of cross-currency interest rate swap contracts outstanding at December 31, 1997 are detailed in Note 11, Long-Term Borrowings.

Capital expenditure hedges

The company enters into foreign currency forward contracts to hedge a portion of its Australian dollar commitments to the Stuart oil shale development project. The forward exchange contracts, which require the company to exchange Canadian dollars for Australian dollars at maturity at exchange rates agreed to at inception of the contracts, reduce the company's exposure to changes in the Australian/Canadian dollar exchange rate by locking in the Canadian dollar amount of its project cash commitments. At December 31, 1997, the company has contracts to purchase Australian $82 million at an average exchange rate of $1.00 Canadian, all maturing in 1998.

	Contract amounts			
($ millions except for average price)	Quantity	Average Price* $Canadian	Revenue hedged $Canadian	Hedge period
As at December 31, 1997				
Crude oil swaps*	**31 500 bbl/day**	**28**	**325**	**1998**
	23 700 bbl/day	**28**	**241**	**1999**
	6 000 bbl/day	**28**	**60**	**2000**
Natural gas swaps*	**19 mmcf/day**	**1.87**	**13**	**1998**
U.S. dollar swaps	**U.S.$15**	**1.43**	**21**	**1998**
	U.S.$98	**1.39**	**136**	**1999**
	U.S.$159	**1.37**	**218**	**2000**
	U.S.$100	**1.39**	**139**	**2001**
As at December 31, 1996				
Crude oil swaps*	45 600 bbl/day	25	424	1997
	10 250 bbl/day	28	106	1998
Natural gas swaps*	26 mmcf/day	2.46	23	1997
U.S. dollar swaps	U.S.$103	1.44	148	1998
	U.S.$75	1.42	107	1999
As at December 31, 1995				
Crude oil swaps*	38 000 bbl/day	25	349	1996
	2 000 bbl/day	28	21	1997
Natural gas swaps*	26 mmcf/day	1.83	18	1996
U.S. dollar swaps	U.S.$44	1.38	61	1996
	U.S.$190	1.40	266	1997
	U.S.$138	1.45	200	1998
	U.S.$35	1.42	50	1999

* Average price for crude oil swaps is WTI per barrel at Cushing, Oklahoma. Average price for natural gas swaps is dollars per thousand cubic feet.

Fair value of derivative financial instruments

The fair value of these hedging derivative financial instruments is the estimated amount, based on brokers' quotes, that the company would receive (pay) to terminate the contracts. Such amounts, which also represent the unrecognized and unrecorded gain (loss) on the contracts, were as follows at December 31:

($ millions)	1997	1996	1995
Crude oil swaps	40	(82)	12
U.S. dollar swaps	(9)	16	12
Natural gas swaps	(1)	(3)	(3)
Australian dollar forwards	(6)	–	–
Cross-currency interest rate swaps	13	–	–
	37	(69)	21
Unrecognized gain exposed to credit risk as at December 31	53		

The company may be exposed to certain losses in the event that other parties to the financial instruments are unable to meet the terms of the contracts. The company's exposure is generally limited to those contracts with an unrecognized gain at the reporting date. The company, however, minimizes this risk by entering into agreements only with highly rated financial institutions, and through regular management review of potential exposure to, and credit ratings of, such financial institutions.

18. CANADIAN AND UNITED STATES ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), which differ in some respects from GAAP in the United States. The significant differences in GAAP, as applicable to these consolidated financial statements and notes, are described in the company's Form 40-F report, which is filed with the United States Securities and Exchange Commission and is available on request.

Quarterly Summary

(unaudited)

Financial Data

	For the quarter ended				Total year	For the quarter ended				Total year	For the quarter ended				Total year
($ millions except per share amounts)	Mar 31 1997	June 30 1997	Sept 30 1997	Dec 31 1997	1997	Mar 31 1996	June 30 1996	Sept 30 1996	Dec 31 1996	1996	Mar 31 1995	June 30 1995	Sept 30 1995	Dec 31 1995	1995
Revenues	571	483	535	565	2 154	507	536	484	573	2 100	453	485	469	494	1 901
Net earnings (loss)															
Oil Sands	51	16	54	58	179	51	47	27	39	164	43	37	24	26	130
Exploration and Production	10	3	4	7	24	6	4	4	8	22	1	2	5	2	10
Sunoco	7	15	17	–	39	11	11	(2)	12	32	1	13	14	8	36
Corporate and eliminations	(8)	(6)	(12)	7	(19)	(9)	(6)	(4)	(12)	(31)	(8)	(8)	(3)	(6)	(25)
	60	28	63	72	223	59	56	25	47	187	37	44	40	30	151
Per common share															
– net earnings	0.54	0.26	0.58	0.66	2.04	0.54	0.51	0.23	0.43	1.71	0.34	0.41	0.36	0.27	1.38
– cash dividends	0.17	0.17	0.17	0.17	0.68	0.15	0.15	0.17	0.17	0.64	0.13	0.14	0.15	0.15	0.57
Cash flow provided from (used in) operations															
Oil Sands	95	30	101	105	331	84	88	62	84	318	84	77	62	55	278
Exploration and Production	46	31	38	47	162	38	33	28	47	146	29	22	27	25	103
Sunoco	25	36	41	19	121	26	31	7	26	90	17	32	34	23	106
Corporate and eliminations	(17)	(16)	(19)	13	(39)	(18)	(19)	(23)	(3)	(63)	(20)	(32)	(19)	(21)	(92)
	149	81	161	184	575	130	133	74	154	491	110	99	104	82	395

Operating Data

($ millions except per share amounts)	For the quarter ended Mar 31 1997	June 30 1997	Sept 30 1997	Dec 31 1997	Total year 1997	For the quarter ended Mar 31 1996	June 30 1996	Sept 30 1996	Dec 31 1996	Total year 1996	For the quarter ended Mar 31 1995	June 30 1995	Sept 30 1995	Dec 31 1995	Total year 1995
Oil Sands															
Production (a)	81.3	55.6	86.1	94.3	79.4	78.4	79.2	70.0	82.7	77.6	78.4	75.3	74.2	76.2	76.0
Sales (a)															
– light sweet crude oil	56.9	36.9	59.1	61.1	53.5	61.5	52.4	52.2	59.9	56.5	59.0	57.0	58.1	55.1	57.3
– diesel	11.6	6.3	11.6	10.4	10.0	10.6	9.4	8.8	11.2	10.0	11.5	9.9	9.6	9.2	10.0
– light sour crude oil	11.4	13.1	16.8	16.9	14.6	8.2	14.7	11.6	11.4	11.5	8.4	8.4	6.3	10.1	8.3
	79.9	56.3	87.5	88.4	78.1	80.3	76.5	72.6	82.5	78.0	78.9	75.3	74.0	74.4	75.6
Average sales price (b)															
– light sweet crude oil	27.82	26.03	26.04	26.55	26.65	24.86	26.40	26.87	28.57	26.67	24.29	24.78	23.54	23.93	24.13
– other (diesel and light sour crude oil)	28.46	24.78	25.35	24.58	25.74	25.39	27.38	27.37	28.60	27.27	25.48	26.41	25.56	24.63	25.50
– total	28.01	25.60	25.82	25.92	26.36	24.98	26.71	27.01	28.58	26.84	24.59	25.17	23.98	24.11	24.46
– total *	30.89	26.49	27.03	27.29	27.98	25.78	29.05	29.90	32.45	29.32	24.76	25.54	23.26	23.54	24.28
Cash costs (c)	14.50	21.00	13.50	13.00	14.75	13.25	15.75	18.00	16.50	15.75	11.75	13.75	14.25	15.75	13.75
Exploration and Production															
Gross production															
– crude oil															
– conventional (a)**	11.0	10.6	10.3	11.0	10.7	11.2	10.7	11.1	11.0	11.0	12.9	11.6	11.8	12.1	12.1
– non-conventional (a)**	–	0.6	0.8	1.0	0.6	–	–	–	–	–	–	–	–	–	–
– natural gas liquids (a)	5.4	4.2	4.9	5.3	5.0	5.9	4.7	5.1	5.3	5.3	3.8	2.8	3.8	4.0	3.6
– natural gas (d)	239	235	238	248	240	214	211	232	247	226	177	159	173	182	173
– total (e)	40.3	38.9	39.8	42.1	40.3	38.5	36.5	39.4	41.0	38.9	34.4	30.3	32.9	34.3	33.0
Average sales price															
– crude oil															
– conventional (b)	23.85	22.58	22.14	22.42	22.75	22.34	23.70	24.22	24.70	23.74	22.18	22.72	21.90	21.54	22.08
– non-conventional (b)	–	13.67	12.52	12.54	12.83	–	–	–	–	–	–	–	–	–	–
– total (b)	23.85	22.01	21.46	21.60	22.22	22.34	23.70	24.22	24.70	23.74	22.18	22.72	21.90	21.54	22.08
– total (b) *	27.57	23.41	22.73	23.13	24.16	23.34	26.65	27.56	29.81	26.84	22.36	23.15	21.11	21.00	21.90
– natural gas liquids (b)	26.47	19.77	20.19	22.65	22.45	18.47	19.90	20.32	26.62	21.31	15.92	17.31	16.05	16.15	16.28
– natural gas (f)	2.28	1.54	1.65	2.21	1.93	1.53	1.34	1.30	1.80	1.50	1.20	1.07	1.08	1.22	1.14
– natural gas (f) *	2.37	1.53	1.63	2.23	1.94	1.61	1.40	1.34	2.08	1.63	1.19	1.02	0.95	1.26	1.11
Sunoco															
Refined product sales (g) ***	14.1	13.8	13.8	15.1	14.2	13.7	14.3	12.5	13.7	13.5	13.4	13.1	13.3	14.5	13.6
Margins – refining (h)	4.4	5.2	5.5	3.5	4.6	4.8	4.9	3.1	4.5	4.4	4.4	6.0	5.2	4.4	5.0
– retail (h)	6.4	6.9	6.9	6.9	6.8	5.4	5.9	6.1	5.5	5.7	5.0	5.7	6.6	5.9	5.8
Utilization of refining capacity (%)	97	96	101	95	97	96	88	100	95	95	90	87	98	103	94

* Excludes the impact of hedging activities.
** Before deducting 1997 Alberta Crown royalty of 1.0 thousand barrels per day (1996 – 1.1 thousand barrels per day; 1995 – 1.3 thousand barrels per day).
*** Excludes sales through joint venture interests.

(a) thousands of barrels per day
(b) dollars per barrel
(c) dollars per barrel rounded to the nearest $0.25
(d) millions of cubic feet per day
(e) BOE per day
(f) dollars per thousand cubic feet
(g) thousands of cubic metres per day
(h) cents per litre

Metric conversion
Crude Oil, refined products, etc. — 1 m^3 (cubic metre) = approx. 6.29 barrels
Natural gas — 1 m^3 (cubic metre) = approx. 35.49 cubic feet

Five Year Financial Summary

(unaudited)

($ millions except for ratios)	1997	1996	1995	1994	1993
Revenues					
Oil Sands	**751**	766	676	571	487
Exploration and Production	**302**	264	191	195	180
Sunoco	**1 673**	1 638	1 516	1 384	1 323
Corporate and eliminations	**(572)**	(568)	(482)	(513)	(441)
	2 154	2 100	1 901	1 637	1 549
Net earnings (loss)					
Oil Sands	**179**	164	130	90	59
Exploration and Production	**24**	22	10	21	28
Sunoco	**39**	32	36	31	6
Corporate and eliminations	**(19)**	(31)	(25)	(21)	(18)
	223	187	151	121	75
Cash flow provided from (used in) operations					
Oil Sands	**331**	318	278	215	148
Exploration and Production	**162**	146	103	106	90
Sunoco	**121**	90	106	94	79
Corporate and eliminations	**(39)**	(63)	(92)	(66)	(47)
	575	491	395	349	270
Capital and exploration expenditures					
Oil Sands	**491**	321	193	103	116
Exploration and Production	**240**	187	201	169	100
Sunoco	**54**	55	38	31	30
Corporate	**62**	–	4	–	–
	847	563	436	303	246
Total assets	**3 457**	2 824	2 440	2 201	2 023
Capital employed*					
Debt					
Short-term borrowings	**36**	24	35	31	25
Current portion of long-term borrowings	**6**	6	6	5	5
Long-term borrowings	**767**	395	253	190	191
Shareholders' equity	**1 401**	1 247	1 127	1 035	970
	2 210	1 672	1 421	1 261	1 191
Ratios					
Per common share (dollars)					
– net earnings	**2.04**	1.71	1.38	1.11	0.69
– cash dividends	**0.68**	0.64	0.57	0.53	0.52
Return on capital employed (%)*	**11.9**	12.3	11.8	10.6	7.1
Return on shareholders' equity (%)*	**16.9**	15.8	13.9	12.1	7.8
Long-term borrowings to capital employed (%)	**34.7**	23.6	17.8	15.1	16.0
Debt to cash flow provided from operations (%)	**138**	86	74	54	82
Interest coverage – cash flow basis*	**15.6**	22.3	20.8	22.5	18.7

* Definitions

Capital employed – see page 38

Return on shareholders' equity – earnings as a percentage of average shareholders'equity. Average shareholders' equity is the aggregate of total shareholders' equity at the beginning and end of the year divided by two.

Interest coverage – cash flow basis – cash provided from operating activities before interest expense and income tax payments, divided by interest expense plus interest capitalized.

Supplemental Financial and Operating Information

(unaudited)

	1997	1996	1995	1994	1993
OIL SANDS					
Production (thousands of barrels per day)	**79.4**	77.6	76.0	70.7	60.5
Sales (thousands of barrels per day)					
Light sweet crude oil	**53.5**	56.5	57.3	52.4	52.0
Diesel	**10.0**	10.0	10.0	8.3	4.5
Light sour crude oil	**14.6**	11.5	8.3	9.8	3.3
	78.1	78.0	75.6	70.5	59.8
Average sales price (dollars per barrel)					
Light sweet crude oil	**26.65**	26.67	24.13	22.09	22.60
Other (diesel and light sour crude oil)	**25.74**	27.27	25.50	22.96	21.74
Total	**26.36**	26.84	24.46	22.31	22.49
Total *	**27.98**	29.32	24.28	22.11	21.43
Cash costs (dollars per barrel rounded to the nearest $0.25)	**14.75**	15.75	13.75	14.00	16.00
Other oil sands statistics					
Overburden removed (millions of cubic metres)	**17.5**	12.4	8.9	4.7	9.0
Oil sands mined (millions of tonnes)	**54.1**	51.1	49.7	48.0	39.4
Average bitumen content of oil sands mined (percent by weight)	**12.7**	12.1	12.0	11.7	12.2
Average crude yield of oil sands mined (barrels per tonne)	**.535**	.556	.558	.538	.555

* Excludes the impact of hedging activities.

Synthetic crude oil gross reserves

(millions of barrels)	Current Mine Proved	Steepbank Mine* Proved	Steepbank Mine* Probable
December 31, 1993	231	–	–
December 31, 1994	205	–	–
Revisions	–	–	–
Production	(27)	–	–
December 31, 1995	178	–	–
Revisions	(3)	–	–
Production	(28)	–	–
December 31, 1996	147	–	–
Revisions	(11)	–	–
Additions	–	231	463
Production	(29)	–	–
December 31, 1997	**107**	**231**	**463**

* In January 1997, the company received approval from the Alberta Energy and Utilities Board to mine its Steepbank leases. Reserve estimates are based upon a detailed geological assessment, including drilling and laboratory analysis. Estimates also reflect the intergrated nature of the operation, and therefore reflect on demonstrated productive capacity, upgrading yield, plans for increased output, operating life and regulatory constraints. Production from the Steepbank Mine is expected to begin by 1999.

Gross proved reserves do not reflect deductions in respect of Crown and applicable sublease royalties. Under the Crown Royalty Agreement the Crown royalty rate is dependent on deemed net revenue; therefore, calculations of net reserves would vary depending upon assumed production rates, prices and operating and capital costs.

Supplemental Financial and Operating Information

(unaudited)

	1997	1996	1995	1994	1993
EXPLORATION AND PRODUCTION					
Production					
Crude oil – conventional (thousands of barrels per day)					
– gross	**10.7**	11.0	12.1	11.3	10.4
– net	**8.6**	8.7	9.5	8.9	8.2
Crude oil – non-conventional (thousands of barrels per day)					
– gross	**0.6**	–	–	–	–
– net	**0.6**	–	–	–	–
Natural gas liquids (thousands of barrels per day)					
– gross	**5.0**	5.3	3.6	2.5	2.6
– net	**3.5**	3.8	2.5	1.9	1.9
Natural gas (millions of cubic feet per day)					
– gross	**240**	226	173	155	148
– net	**199**	185	139	119	116
Total production (thousands of BOE* per day)					
– gross	**40.3**	38.9	33.0	29.3	27.8
– net	**32.6**	31.0	25.9	22.7	21.7
Average sales price					
Crude oil					
– conventional (dollars per barrel)	**22.75**	23.74	22.08	20.17	20.28
– non-conventional (dollars per barrel)	**12.83**	–	–	–	–
– total (dollars per barrel)	**22.22**	23.74	22.08	20.17	20.28
– total (dollars per barrel) **	**24.16**	26.84	21.90	19.95	19.33
Natural gas liquids (dollars per barrel)	**22.45**	21.31	16.28	13.77	16.47
Natural gas (dollars per thousand cubic feet)	**1.93**	1.50	1.14	1.85	1.67
Natural gas (dollars per thousand cubic feet) **	**1.94**	1.63	1.11	1.76	1.72
Undeveloped land holdings ***					
Oil and gas – western provinces (millions of acres)					
– gross	**1.7**	1.4	1.4	1.2	1.2
– net	**1.3**	1.1	0.9	0.8	0.7
Net wells drilled					
Conventional					
Exploratory – oil	**7**	3	2	1	2
– gas	**10**	8	11	8	8
– dry	**25**	21	17	12	9
Development – oil	**26**	22	16	30	18
– gas	**10**	15	12	13	10
– dry	**4**	6	15	9	7
Non-conventional					
Development – oil	**–**	5	–	–	–
	82	80	73	73	54

* Barrel of oil equivalent – converts gas to oil on the approximate long-term economic equivalent basis that 10,000 cubic feet equals one barrel of oil.

** Excludes the impact of hedging activities.

*** Metric conversion: Land holdings – 1 hectare = approx. 2.5 acres.

OIL AND GAS DATA

The following supplemental oil and gas disclosure is provided in accordance with the provisions of the United States Statement of Financial Accounting Standards (SFAS) No. 69. This statement requires disclosure about conventional oil and gas activities only, and therefore the company's oil sands activities are excluded. Additional information required by SFAS No. 69 is included in the company's Form 40-F report.

Reserves

	Gross		Net	
	Crude oil and natural gas liquids (millions of barrels)	Natural gas (billions of cubic feet)	Crude oil and natural gas liquids (millions of barrels)	Natural gas (billions of cubic feet)
Proved				
December 31, 1993	44	632	35	492
December 31, 1994	52	748	40	593
Revisions of previous estimates	3	38	2	3
Purchases of minerals in place	2	23	1	17
Extensions and discoveries	7	166	5	126
Production	(6)	(63)	(4)	(48)
Sales of minerals in place	–	–	–	–
December 31, 1995	58	912	44	691
Revisions of previous estimates	–	(13)	2	(10)
Purchases of minerals in place	–	1	–	1
Extensions and discoveries	13	188	10	146
Production	(6)	(84)	(5)	(67)
Sales of minerals in place	–	(9)	–	(7)
December 31, 1996	65	995	51	754
Revisions of previous estimates	1	11	1	36
Purchases of minerals in place	–	10	–	8
Extensions and discoveries	10	164	9	128
Production	(6)	(88)	(5)	(73)
Sales of minerals in place	–	(4)	–	(3)
December 31, 1997	**70**	**1 088**	**56**	**850**
Proved Developed				
December 31, 1993	38	447	30	338
December 31, 1994	42	450	33	357
December 31, 1995	50	686	39	521
December 31, 1996	54	675	42	514
December 31, 1997	**55**	**727**	**44**	**568**
Probable				
December 31, 1993	20	332	16	255
December 31, 1994	23	368	18	305
December 31, 1995	22	374	17	282
December 31, 1996	23	380	19	294
December 31, 1997	**25**	**389**	**19**	**306**

1. Proved reserves are considered recoverable under current technology and existing economic conditions, from reservoirs that are evaluated on known drilling, geological, geophysical and engineering data.

   Proved developed reserves are on production, or reserves that could be recovered from existing wells or facilities, if the company placed them on production.

   Probable reserves are not considered recoverable under current technology and existing economic conditions, but analysis of drilling, geological, geophysical and engineering data suggests the likelihood of their existence and future recovery. Probable reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.

2. Gross reserves are before deducting royalties. Net reserves are after deducting royalties. Royalties can vary depending upon factors such as prices, production volumes, timing of initial production and changes in legislation.

   All reserves are located in Canada. There has been no major discovery or other favourable or adverse event which caused a significant change in estimated proved reserves since December 31, 1997. The company has no long-term supply agreements or contracts with governments or authorities in which it acts as producer nor does it have any interest in oil and gas operations accounted for by the equity method.

Supplemental Financial and Operating Information

(unaudited)

OIL AND GAS DATA (cont.)

Standardized Measure of Discounted Future Net Cash Flows from Estimated Production of Proved Oil and Gas Reserves after Income Taxes

($ millions)	1997	1996	1995
At December 31	678	557	426

	1997	1996	1995	1994	1993
SUNOCO					
Refined product sales (thousands of cubic metres per day)					
Transportation fuels					
Gasoline – retail *	3.8	3.8	4.2	4.4	4.1
– other	3.3	3.5	3.3	3.1	2.7
Jet fuel	1.2	1.1	1.1	1.1	0.9
Other	2.6	2.3	2.3	2.1	2.4
	10.9	10.7	10.9	10.7	10.1
Petrochemicals	0.7	0.9	0.8	0.8	0.8
Heating oils	1.0	0.7	0.7	0.8	1.1
Heavy fuel oils	0.7	0.6	0.6	0.6	0.4
Other	0.9	0.6	0.6	0.6	0.7
	14.2	13.5	13.6	13.5	13.1
Margins					
Refining	4.6	4.4	5.0	5.5	5.4
Retail	6.8	5.7	5.8	5.8	7.0
Crude oil supply and refining					
Processed at Suncor Energy refinery (thousands of cubic metres per day)	10.8	10.6	10.5	10.5	10.3
Utilization of refining capacity (%)	97	95	94	94	93
Retail outlets (number at year-end)	337	351	436	500	605

* Excludes sales through joint venture interests.

TOTAL SUNCOR EMPLOYEES (number at year-end)	2 439	2 324	2 353	2 784	2 946

Share Trading Information

(unaudited)

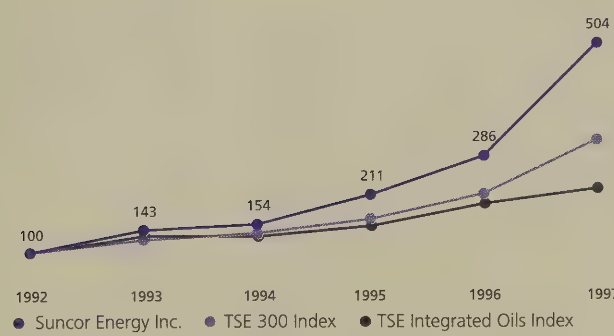
(stock trading symbol SU)	For the quarter ended Mar 31 1997	June 30 1997	Sept 30 1997	Dec 31 1997	For the quarter ended Mar 31 1996	June 30 1996	Sept 30 1996	Dec 31 1996
Share ownership								
Average number outstanding, weighted monthly (thousands)(1)	**109 611**	**109 650**	**109 715**	**109 876**	109 384	109 408	109 436	109 532
Share price (dollars)(2)								
Toronto Stock Exchange								
High	**32.00**	**38.00**	**52.30**	**54.90**	21.90	22.30	25.00	30.20
Low	**27.50**	**29.60**	**35.00**	**45.00**	20.80	20.30	21.60	23.70
Close	**30.50**	**37.00**	**50.20**	**49.00**	21.60	21.60	24.60	28.40
New York Stock Exchange (1996 and First Quarter, 1997 – American Stock Exchange) – $U.S.								
High	**24.10**	**26.60**	**37.50**	**39.80**	16.10	16.40	18.40	22.70
Low	**20.20**	**24.60**	**25.10**	**31.50**	15.10	15.00	15.90	17.60
Close	**22.30**	**26.80**	**36.80**	**34.10**	15.80	15.80	18.00	20.70
Shares traded (thousands)								
Toronto Stock Exchange	**18 046**	**14 731**	**10 445**	**13 092**	10 302	11 840	53 858	30 504
New York/American Stock Exchanges	**186**	**429**	**512**	**315**	121	102	161	256
Per-share information (dollars)								
Net earnings	**0.54**	**0.26**	**0.58**	**0.66**	0.54	0.51	0.23	0.43
Cash dividends	**0.17**	**0.17**	**0.17**	**0.17**	0.15	0.15	0.17	0.17

(1) The company had approximately 1 490 holders of record of common shares as at January 31, 1998.
(2) The company's common shares are traded principally on the Toronto and New York Stock Exchanges.

Information for Security Holders Outside Canada
Cash dividends paid to shareholders resident in countries with which Canada has an income tax convention are usually subject to Canadian non-resident withholding tax of 15%. The withholding tax rate is reduced to 5% on dividends paid to a corporation if it is a resident of the United States which owns at least 10% of the voting shares of the company.

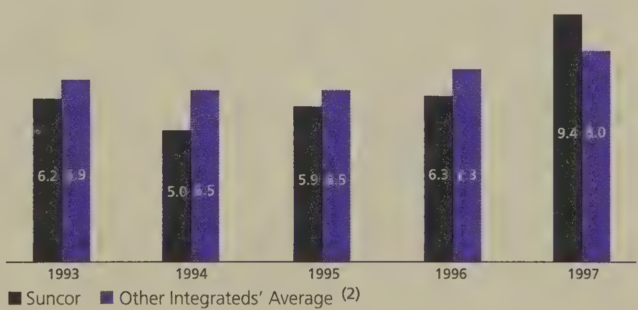
CONTINUING TO DELIVER SHAREHOLDER VALUE

Suncor Share Performance ($)



This graph shows, as of December 31 in each 1993, 1994, 1995, 1996 and 1997, the total cumulative return, assuming the reinvestment of dividends, of $100 invested on December 31, 1992 in each of the common shares, the TSE 300 Composite Index and the TSE Integrated Oils Index.

Cash Flow/Share Price Multiple (1)



Current higher cash flow multiple reflects Suncor's earnings growth outlook, business mix and proven track record.

(1) Based on closing share prices on December 31 and cash flow from operations for the year then ended.
(2) Other integrateds' includes the Canadian integrated oil and gas companies: Imperial Oil Limited, Petro-Canada and Shell Canada Limited.

Corporate Directors and Officers

DIRECTORS

Brian A. Canfield
Coquitlam, British Columbia
Chairman
BC TELECOM Inc. and BC TEL

John T. Ferguson
Edmonton, Alberta
Chairman and
Chief Executive Officer
Princeton
Developments Ltd.

Richard L. George
Calgary, Alberta
President and
Chief Executive Officer
Suncor Energy Inc.

Allan E. Gotlieb*
Toronto, Ontario
Senior Consultant
Stikeman, Elliott

Poul Hansen
Vancouver,
British Columbia
Chairman and
General Manager
Sperling Hansen
Associates Inc.

Ardagh S. Kingsmill, Q.C.*
Toronto, Ontario
Consultant/Counsel
McCarthy Tetrault

Michael M. Koerner
Toronto, Ontario
President
Canada Overseas
Investments Limited

Robert W. Korthals
Toronto, Ontario
Corporate Director

M. Ann McCaig
Calgary, Alberta
President
VPI Investments Ltd.

Bill N. Rutherford
Berwyn, Pennsylvania
Retired Senior Vice President
Human Resources
and Administration
Sun Company, Inc.

W. Robert Wyman
West Vancouver,
British Columbia
Chairman of the Board
Suncor Energy Inc.
Vice Chairman of the Board
Fletcher Challenge Canada
Limited

NEW DIRECTORS

John R. Huff
Houston, Texas
Chairman, President
and Chief Executive Officer
Oceaneering
International, Inc.

JR Shaw
Calgary, Alberta
Chairman and
Chief Executive Officer
Shaw Communications Inc.

OFFICERS

W. Robert Wyman
Chairman of the Board

Richard L. George
President and
Chief Executive Officer

Michael W. O'Brien
Executive Vice President
Sunoco

M. (Mike) Ashar
Executive Vice President
Oil Sands

Barry D. Stewart
Group Executive
Vice President
Exploration and Production

Sue Lee
Senior Vice President
Human Resources and
Communications

David W. Byler
Chief Financial Officer

Thomas L. Ryley
Vice President Planning and
Corporate Development

Terrence J. Hopwood
Vice President General
Counsel and Secretary

J. Kenneth Alley
Treasurer

Janice B. Odegaard
Assistant Secretary

* Retiring April 22/98

In 1997 Suncor welcomed two new Directors to its Board, John R. Huff and JR Shaw, replacing retiring Directors Allen E. Gotlieb and Ardagh S. Kingsmill, Q.C. We thank Mr. Gotlieb and Mr. Kingsmill for their many years of excellent service and wish our incoming Directors well in their new posts.

Designed and produced by Smith + Associates

SUNCOR ENERGY

1997 Annual Report Card

We make changes to each year's annual report based on feedback from our readers. Once again, we would appreciate your comments on how we might improve. Please take a few minutes to evaluate our report.

1. Suncor's report was easy to read and understand.
   - ☐ Strongly Agree ☐ Agree
   - ☐ Disagree ☐ Strongly Disagree

2. The report contained all the information I needed to know.
   - ☐ Strongly Agree ☐ Agree
   - ☐ Disagree ☐ Strongly Disagree

3. After reading the annual report, what is your opinion of Suncor?

   ____

4. Next year's annual report could be improved by:

   ____

5. I would like to receive more information about Suncor:
   (Please note: all the materials listed below, plus much more, are available on Suncor's website at www.suncor.com)
   - ☐ Quarterly Report
   - ☐ Environmental Report
   - ☐ Suncor's Position on Global Climate Change
   - ☐ Dividend Reinvestment and Common Share Purchase Plan
   - ☐ Other ____________________

   To receive these publications, you may contact Suncor at 1-800-558-9071 or fill in your name and address below:

   Name: ____________________
   Address: ____________________

6. ☐ If you would like to have your name removed from Suncor's mailing list, please mark this box and fill in your address above.

Suncor. The Plan enables shareholders to invest cash dividends in common shares or acquire additional shares through optional cash payments without payment of brokerage commissions, service charges or any other costs associated with administration of the Plan. To obtain additional information, please call Montreal Trust Company of Canada at 1-800-663-9097, and a brochure more fully describing the Plan will be forwarded to you.

local time on April 22, 1998 at the Palliser Hotel, Calgary, Alberta.

Corporate Office

Box 38
112 – 4th Avenue S.W.
Calgary, Alberta T2P 2V5
Telephone: (403) 269-8100
Facsimile: (403) 269-6217
E-mail: info@suncor.com

Analyst and Investor Inquiries

Telephone: (403) 269-8670
Facsimile: (403) 269-6217
E-mail: info@suncor.com

Internet

Visit Suncor's home page on the World Wide Web at: www.suncor.com

To Obtain Annual, Quarterly & Environmental Reports

Telephone: 1-800-558-9071

Sometimes our shareholders receive more than one copy of our annual report in the mail because their shares are registered in different names or addresses. We make every effort to avoid duplication. If you receive, but do not require, more than one mailing for the same share ownership, call Montreal Trust at 1-800-663-9097 to make arrangements to combine your accounts.

We Care

Suncor Energy is a member of the World Business Council for Sustainable Development.

Corporate Directors a

DIRECTORS

Brian A. Canfield
Coquitlam, British Columbia
Chairman
BC TELECOM Inc. and BC TEL

John T. Ferguson
Edmonton, Alberta
Chairman and
Chief Executive Officer
Princeton
Developments Ltd.

Richard L. George
Calgary, Alberta
President and
Chief Executive Officer
Suncor Energy Inc.

Allan E. Gotlieb*
Toronto, Ontario
Senior Consultant
Stikeman, Elliott

Poul Hansen
Vancouver,
British Columbia
Chairman and
General Manager
Sperling Hansen
Associates Inc.

Ardagh S. Kingsmill, Q.C.*
Toronto, Ontario
Consultant/Counsel
McCarthy Tetrault

Michael M. Koerner
Toronto, Ontario
President
Canada Overseas
Investments Limited

* Retiring April 22/98

Limited

NEW DIRECTORS

John R. Huff
Houston, Texas
Chairman, President
and Chief Executive Officer
Oceaneering
International, Inc.

JR Shaw
Calgary, Alberta
Chairman and
Chief Executive Officer
Shaw Communications Inc.

Communications

David W. Byler
Chief Financial Officer

Thomas L. Ryley
Vice President Planning and
Corporate Development

Terrence J. Hopwood
Vice President General
Counsel and Secretary

J. Kenneth Alley
Treasurer

Janice B. Odegaard
Assistant Secretary

In 1997 Suncor welcomed two new Directors to its Board, John R. Huff and JR Shaw, replacing retiring Directors Allen E. Gotlieb and Ardagh S. Kingsmill, Q.C. We thank Mr. Gotlieb and Mr. Kingsmill for their many years of excellent service and wish our incoming Directors well in their new posts.

Designed and produced by Smith + Associates

Investor Information

Stock Trading Symbols

SU (Common Shares)

Stock Exchange Listings

Common shares are listed on Toronto, Montreal, and New York stock exchanges.

Dividends

Suncor's Board of Directors reviews its dividend policy from time to time, in light of changes that may occur in the company's financial position. In 1997, a dividend of $0.68 per share was paid ($0.17 quarterly).

Dividend Reinvestment and Common Share Purchase Plan

In 1997 the company introduced its Dividend Reinvestment and Common Share Purchase Plan, which provides an efficient and cost effective way for shareholders to increase their investment in Suncor. The Plan enables shareholders to invest cash dividends in common shares or acquire additional shares through optional cash payments without payment of brokerage commissions, service charges or any other costs associated with administration of the Plan. To obtain additional information, please call Montreal Trust Company of Canada at 1-800-663-9097, and a brochure more fully describing the Plan will be forwarded to you.

Stock Transfer Agent and Registrar

Montreal Trust Company of Canada in Montreal, Toronto, Calgary, Edmonton, Vancouver; The Bank of Nova Scotia Trust Company of New York, N.Y.

Share Split

In 1997, Suncor's Board of Directors authorized a two for one split of the company's common shares. The record date for the share split was May 8, 1997.

Ownership

Suncor Energy Inc. is a 100% publicly owned Canadian company. As of year end 1997, share capital consisted of 109.9 million shares.

Annual Meeting

The annual and special meeting of shareholders will be held at 11 a.m. local time on April 22, 1998 at the Palliser Hotel, Calgary, Alberta.

Corporate Office

Box 38
112 – 4th Avenue S.W.
Calgary, Alberta T2P 2V5
Telephone: (403) 269-8100
Facsimile: (403) 269-6217
E-mail: info@suncor.com

Analyst and Investor Inquiries

Telephone: (403) 269-8670
Facsimile: (403) 269-6217
E-mail: info@suncor.com

Internet

Visit Suncor's home page on the World Wide Web at:
www.suncor.com

To Obtain Annual, Quarterly & Environmental Reports

Telephone: 1-800-558-9071

Sometimes our shareholders receive more than one copy of our annual report in the mail because their shares are registered in different names or addresses. We make every effort to avoid duplication. If you receive, but do not require, more than one mailing for the same share ownership, call Montreal Trust at 1-800-663-9097 to make arrangements to combine your accounts.

We Care

Suncor Energy is a member of the World Business Council for Sustainable Development.

Suncor is actively pursuing new opportunities that have high growth and profit potential while remaining committed to continuously improving the profitability and sustainability of its existing businesses. The company is focused on creating shareholder value that can be translated into share price growth — a focus that resulted in a 73% appreciation in Suncor's share price during 1997.

SUNCOR ENERGY

Suncor Energy Inc.

Box 38
112 – 4th Avenue S.W.
Calgary, Alberta T2P 2V5

Tel: (403) 269-8100
Fax: (403) 269-6217

E-mail: info@suncor.com
Website: www.suncor.com

Printed in Canada on paper containing 15% post-consumer fibre.